

THE CO-OPERATIVE
MOVEMENT IN INDIA

THE CO-OPERATIVE MOVEMENT IN INDIA

*Before Partition
and in Independent India*

Third Enlarged Edition

BY

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Introduction to the First Edition by the late

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THIS BOOK IS DEDICATED TO ALL UNSELFISH
WORKERS FOR THE CAUSE OF CO-OPERATION,
IN WHICH, IN ITS BROADEST ASPECT,
LIES THE HOPE, NOT ONLY OF THE
PEOPLE OF INDIA AND PAKISTAN,
BUT ALSO OF THE WORLD.

PREFACE TO THE THIRD EDITION

Co-operation on the Indian subcontinent has not worked the miracle for which its early enthusiastic advocates had hoped, and an analysis of the reasons for that relative failure against the background of conditions in undivided India, most of which persist today, is necessary for determining the extent to which it may be anticipated that the Co-operative Movement can overcome adverse external conditions and internal weaknesses, avoiding the repetition of past errors and consolidating and augmenting gains.

Analyses were attempted, during the difficult years between the great depression and the second world war, by not a few Provincial Committees for Co-operative Enquiry or individual investigators prominent in the Movement. More recent data are available in the reports of National Committees, such as the Agricultural Finance Sub-committee of the Government of India's Policy Committee on Agriculture, Forestry and Fisheries, headed by Professor D. R. Gadgil, and the Co-operative Planning Committee headed by Shri R. G. Saraiya and in the valuable interpretative reports supplementing the annual *Statistical Statements Relating to the Co-operative Movement in India*, brought out by the Agricultural Credit Department of the Reserve Bank of India. And, in addition to their factual content, some of the Annual Reports of the Registrars of Co-operative Societies contain general observations of great value to the analyst of the Movement.

In fact, the material now available on the subject is so plenteous as well to daunt the layman interested in the well-being of the people of this subcontinent and in what may foster it, even if he has ready access to the necessary documents. The task of the reviewer of the Co-operative Movement is no longer chiefly that of gathering and attempting to evaluate the facts. It has

become rather that of sifting the significant and the permanently valuable from the merely particular and ephemeral, of taking soundings, of attempting to chart the clear channel and to indicate the rocks beneath the surface which seem to threaten shipwreck in the future. It seems doubtful from the evidence available whether even those charged with the welfare of the Co-operative Movement are always able, in their necessary preoccupation with the trees, to keep the whole wood in view.

The years since 1932, when the first edition of this book appeared, had been eventful ones for the Co-operative Movement and rich in lessons, some bitter, some encouraging, but all valuable for future guidance. The evaluation of these seemed desirable for bringing into proper perspective the earlier picture and it was attempted in the second edition, published in 1950, in the hope that a retrospect, an evaluation and a few suggestions by one outside the active Movement might serve a useful purpose in indicating tentative answers to the questions Whether, Why and How for Co-operation in independent India and in Pakistan. That edition brought the story down to the dividing of the India of the pre-Partition period into India and Pakistan, making use of the last statistics assembled for the Co-operative Movement of the entire subcontinent, except for small 'pockets' still under the rule of colonial powers.

The attainment of the independence longed for and worked for by people in all parts of undivided India was on the condition of the dividing of the country into two independent nations. The tragic sequel and the resulting population shifts could not have been without important repercussions on the Co-operative Movement, the effects of which will long be felt on both sides of the border. The Partition resulted in Sind, the North-West Frontier Province, West Punjab and East Bengal going to Pakistan, with the accession of Kashmir still in dispute.

Aside from the many problems posed for the adminis-

tration of the Co-operative Movement, the comparison of recent statistics with earlier ones applying to superseded territorial and population groupings has been almost hopelessly complicated by the Partition. Additional handicaps are imposed upon administration as well as upon comparative analysis by the grouping, in the Indian Republic, of some States, formerly under Princely Rule, into larger units and the merging of others into one or another of the former Provinces. The proposed realignment of States on a linguistic basis, like the formation of the Andhra State, inaugurated on 1 October 1953, promises increasing complications for Co-operative administration and for analysis.

The second edition having been out of print for a year and the demand for it continuing, a third edition was decided upon by the publishers early in 1953. The author was unable to undertake at this time a thorough-going revision or to make the research necessary for a supplementary chapter. Fortunately, Shri K. Madhava Das, an Officer of the Reserve Bank of India whose helpfulness in connexion with the author's work on the second edition was acknowledged in its Preface, consented, with the kind permission of the Reserve Bank of India, to prepare an additional chapter on 'Recent Developments in India'. This brings the overall picture of the Co-operative Movement in the Indian Republic as nearly up to date as the available data permit and includes Shri Madhava Das's observations on significant problems and trends.

Shri Madhava Das is particularly well fitted for the preparation of this chapter by his long connexion with the Agricultural Credit Department of the Reserve Bank and, more recently, his connexion with its Department of Banking Development; and particularly by his service as assistant to the Chairman of the Co-operative Planning Committee throughout its labours and in connexion with the secretarial work of the Reserve Bank of India's Standing Advisory Committee on Agricultural Credit.

It must, however, be understood that any opinions expressed in the chapter on 'Recent Developments in India' are the personal views of Shri Madhava Das and do not necessarily agree with the attitude and views of either the Reserve Bank of India or of the author herself.

It is regretted that circumstances made it impossible to include in this edition the contemplated additional section on 'Recent Developments in Pakistan,' but the data received through the kind co-operation of Dr (Mrs) Z. M. Ahmad, Agricultural Credit Officer of the State Bank of Pakistan, are gratefully acknowledged and will, it is hoped, be put to good use in a fourth edition of this book or in a separate brochure.

Meanwhile this edition is confined to the Co-operative Movement in undivided India, brought up to date for the Republic of India alone. The first seven chapters and the tables are as in the second edition, except for the correction of a few of the more obvious and most easily remediable anachronisms, and additions to the Addendum to Chapter VII.

The author offers her renewed thanks to all who so kindly furnished information for the earlier editions of this book and especially to the Librarian of the Bombay Provincial Co-operative Institute in 1931 and to the Agricultural Credit Department of the Reserve Bank in connexion with the preparation of the second edition. Her special gratitude is due to Shri K. Madhava Das for contributing the supplementary chapter for the present edition, at a considerable sacrifice of time and energy, and to her publishers. She wishes especially to record her indebtedness to the unfailing encouragement and good counsel of the late Dewan Bahadur Hiralal L. Kaji. Dewan Bahadur Kaji, who was the first President of the Indian Co-operative Union and whose death in 1952 deprived the Co-operative Movement of one of its most active and enthusiastic honorary workers, contributed a foreword to the first edition of this book.

The author's acknowledgments would not be complete

without a grateful tribute to the memory of the late Sir Horace Plunkett, co-operator extraordinary, humanitarian, and, withal, an individual of rare culture, sympathy and courtly charm. The introduction which he contributed to the first edition of this book, and which is reproduced here, was one of the last things he wrote before his death on 26 March 1932.

The Co-operative Movement in the Indian Republic appears to be on the eve of a considerable expansion, what with the early completion of the All-India Rural Credit Survey of the Reserve Bank of India and the prominent role given to co-operation in the Planning Commission's First Five Year Plan, accepted in November 1952 by Pandit Nehru as Chairman of the National Development Council. Regret must, however, be expressed that the Commission have accepted the anomaly of compulsory 'co-operation' in respect of collective farming. The author must again risk the charge of being reactionary in reaffirming her faith in genuine co-operation and democracy. She remains convinced that with the sacrifice of the fundamental co-operative principle of the voluntary combination of individuals to work for their common betterment the value of the Co-operative Society as a school of democracy and a training-ground for character is lost.

Even a bare majority of the individual landowners is not required, under the Commission's proposal, to assent to the formation of a co-operative farming society for the entire village, but only 'people holding at least half the total area under cultivation,' if the recommended enabling legislation is passed. Is that, by any stretch of the imagination, either co-operation or democracy?

It may be worth the while of the Indian authorities to study the experience of Yugoslavia with collective farming, as described in 'The Atlantic Report on the World Today: Yugoslavia' (*The Atlantic Monthly*, July 1953). It reports that one of the first directives of the Federal Executive Council (constituted early in 1953 as an organ

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of the Federal Assembly, in which the central authority is now vested) was

to put the peasant collectives on a strictly voluntary basis. A peasant may now withdraw from a collective, taking away his fields and implements, or the whole collective may disband, or reorganize in any form that suits the members, or merge with one of the traditional general agricultural co-operatives such as existed in pre-Communist days and still exist, especially in Croatia and Slovenia.

Under collectivization production has consistently fallen 15 to 20 per cent below the average for the decade from 1930 to 1940.

In conclusion, it may be said that the problems and difficulties faced by the Co-operative Movement in the Indian Republic are great but its achievements are not inconsiderable, however far short they fall of the early sanguine expectations and of the possibilities. These achievements justify hope for the Movement, if it holds fast to the tried and proved co-operative principles, a hope encouraged by the following sentence from the admirable 'Statement on Race' which was drawn up by experts on race problems and published by UNESCO on 18 July 1950:

The whole of human history shows that a co-operative spirit is not only natural to man, but more deeply rooted than any self-seeking tendencies.

ELEANOR M. HOUGH

17 November 1953
Bangalore

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INTRODUCTION TO THE FIRST EDITION

By the LATE RT. HON. SIR HORACE PLUNKETT, K.C.V.O.

IN December last a young American lady, passing through London on her way from India to the United States, called upon me. She told me that she had written a book upon 'The Co-operative Movement in India', and that if I would write a brief Introduction, she would be greatly obliged. She was unknown to me; I was in poor health and in hopeless arrears with some literary work I had hoped to do. She explained that she had spent the greater part of a year in India; that her book was a 'thesis' required for the Degree of Doctor of Philosophy at the George Washington University; and that her request was prompted by the frequent evidences, brought to her notice in the course of her Indian studies, of my keen interest in her subject. I could not do more than promise to consider her request. She left me a ponderous tome in typescript and a most favourable impression of my strange visitor. With thanks in anticipation and a charming courtesy, she wished me better health and was gone.

From her ship she wrote that an eminent firm of London publishers had taken her book and would send me the proofs. These came in due course, together with an admirable Foreword by Professor Kaji, which seemed to take all the wind out of my sails. Nevertheless, I set to work upon the formidable task of reading the book, and I simply could not put it down. I soon came to the reason for my suggested intervention. In 1928 I had written a Memorandum upon Co-operation for the Royal Commission upon Indian Agriculture, over which Lord Linlithgow presided; and Miss Hough, in her exhaustive search, had procured a copy.

I had prefaced my essay with an account of the agricultural co-operative movement in Ireland from its origin

in 1889. I did so because some Indian students had taken a keener interest in our endeavour to reorganize Irish agriculture upon co-operative lines than had any other outsiders. More particularly were they interested in our work among the more backward peasantry along the western seaboard of the island, where they found a rural community with so many characteristics with which they were familiar at home that some of them told me the Irish Celt must have migrated from the East in prehistoric times. In both countries the prosperity of every section of the population depended, directly or indirectly, upon the amount of wealth produced from the soil, upon the efficiency of its production and the economy of its distribution. We told them of the two fundamental principles upon which our efforts were based—namely, the immeasurably more effective value of organized voluntary action than of state assistance, however essential this might be; secondly, we insisted upon regarding and treating agriculture in three aspects—as an industry, as a business, and as a life. We had not yet adopted our formula, Better Farming, Better Business, Better Living.

I must, however, restrict the mention of my own opinions to those which appear to have appealed to Miss Hough. She notes, not apparently with disagreement, my submission that the widely spread and numerous supported Indian Co-operative *Movement* would more accurately be called a Co-operative *Policy*. It was created by 'resolutions' (to all intents and purposes laws) of the Central Government and has been administered almost wholly by the ablest civil service in the world. A huge posse, now nearly all Indian, of Registrars, Assistant Registrars, Auditors and Accountants, inspects, supervises, and largely controls the co-operative societies scattered over the continent. These societies are so predominantly for the purpose of credit that comparatively little attention has been given to the other co-operative objects and functions needed to bring the movement into

the co-operative category. It could not have been otherwise, since indebtedness and its relief is necessarily the primary purpose in view. All the talk about 'Indianization' and 'de-officialization' but leads to the general conclusion that Indian organizers will have to be trained gradually to build up an indigenous and spontaneous movement upon the foundations laid. In such a development, which Miss Hough realizes it will take a generation or more to achieve, she visualizes tremendous possibilities, which His Majesty may well have had in mind when, at the Durbar at Delhi in 1911, he declared that 'if the system of co-operation can be introduced and utilized to the full, I foresee a great and glorious future for the agricultural interests of the country'.

It would be impossible in brief space to give an adequate summary of the contents of this remarkable survey; but I feel bound to add a few words in appreciation of its quality. As I recalled my own relatively exiguous effort to grasp the actual achievement and future potentialities of the attempt to apply to Indian conditions the principles and methods of co-operation as they have been worked out in the West, I became more and more fascinated with this latest contribution to India's co-operative problems. Miss Hough was not appalled, as I was, by the voluminous literature on the subject, but determined to master it. She embarked upon an itinerary which brought her into personal touch with typical communities with which the central and local governments were seeking to try out their co-operative experiments. The interested student will not fail to observe how, in the Appendices, many books of reference and innumerable official documents are listed—not, as is a too common practice, in order to impress the reader with the comprehensiveness of the documentation, but to enable him to find the relevant needles in the huge stacks of hay. Close upon a thousand notes give the authorities upon which she relies for statements made.

The supreme merit of the work is its placing of co-

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operation in its proper setting—that is, as one factor of immense present and far greater prospective importance in the national economy of a country whose future prosperity depends mainly upon the organization of the overwhelming majority of the population engaged in the production of food and the raw material of some industries. While full account is taken of the social conditions, the illiteracy, the racial, linguistic, and other complexities which bulk so largely in the political difficulties, there is the most skilful avoidance of controversial politics. I give it as my humble opinion that all who are genuinely concerned for the welfare of India's millions of peasant folk and wish to grasp their baffling economic problems, with due regard to the eternal human factor, will do well to follow the trail this enterprising thesis has so finely blazed.

HORACE PLUNKETT

The Horace Plunkett Foundation
10, Doughty Street
London, W.C. 1
March 1932

CHAPTER I

THE BACKGROUND

INDIA'S attainment of her ardently desired freedom in 1947, the partition and the grave regional disturbances and large transfers of population which succeeded it have not affected fundamentally the background against which the Co-operative Movement must be viewed or the weaknesses in the economic structure which challenge the constructive thinking of the greatest minds of India and Pakistan

The latest statistics available for the whole subcontinent (excluding French and Portuguese India) are for the undivided country; for the purposes of this study, to avoid confusion, India shall mean the whole subcontinent. When the new nations into which it has been divided and which have inherited its problems (and developed some of their own) are separately referred to, it will be under the designations of the Indian Republic and Pakistan. Also the references to Provinces and States may be understood as applying to those existing before 15 August 1947, unless the new regroupings are specifically designated.

To determine the weaknesses in the economic structure and the possibilities of co-operation in relation to them, it is necessary to analyse the conditions—geographic, social, economic and industrial, as well as political—which contribute to the present situation. Arraignments of isolated elements have often ignored the numerous contributory factors, the accurate evaluation of which must precede constructive remedial measures.

The Geographic Background

According to the Census of 1941, the Indian Peninsula, with an area only 53 per cent of that of the United States,

contains—one hesitates to say 'supports'—just under 390,000,000 people, almost three times the population of the U.S.A. Rich as it is in natural resources and in manpower, it obviously is over-populated for its present stage of economic development, as witness the large proportion of the population who, impoverished and in debt, are living dangerously near the limit of subsistence.

In shape not unlike the South American continent, the Indian subcontinent is a geographic unit, the Indian Ocean and the Himalayas having cut it off for centuries from contact with the West except by sea or through the famous Khyber Pass in the north-west. Great alluvial plains with fine soil represent about two-thirds of the cultivable area. The richest soil is in the plain which stretches across the northern, non-peninsular part of the country between Burma and Baluchistan. Most of the peninsula, and central India almost to the Ganges and Jumna rivers, consists of rocky highlands, with really good lands patchy and peasant agriculture usually hard and yielding small returns.^{1*}

Out of former British India's total area available for cultivation, roughly stated as 354 million acres, it has been estimated that only three-fifths is actually cultivated,² in addition to which nearly 10 million are reported reclaimable³—not, it is to be hoped, at the cost of injudicious deforestation. In 1941-2 nearly 40 million acres were irrigated by Government irrigation works, chiefly in the Punjab, Madras and the United Provinces.⁴ Great things are also to be hoped for regional improvement from the several great irrigation projects which have been undertaken, as in the Sutlej and Indus, Damodar and Mahanadi valleys. In many parts of the country, however, the scarcity of water serves as a check on the extension of the cultivated area.

There is marked climatic variation between different sections, but the seasonal distribution of rainfall, which averages about 45 inches for the peninsula, allows double

*Numbers refer to bibliographic references at the end.

THE BACKGROUND

cropping in a very wide area.⁵ Except, however, where irrigation has introduced a measure of stability, the yield depends largely on the monsoon rains which are subject to great local variations.

India has varied mineral resources, coal, manganese, gold and petroleum leading in commercial importance,⁶ though the uranium deposits in Travancore may have a sinister significance for the future out of proportion to their quantity. India also produces building materials, salt, silver, mica and zinc⁷ and is said to have some of the richest iron ore deposits in the world, though as yet inadequately exploited.

Rice is overwhelmingly the leading crop, with nearly 70 million acres sown to it in 1938-9, as compared with about 37 million in the millets, nearly 27 million in wheat, 14 million in cotton and 16 and nearly 12 million, respectively, in the principal oil seeds and gram. Maize, groundnuts, tobacco and fodder crops also are grown in considerable quantities,⁸ and there are other products of great regional importance such as tea in Assam and Bengal's great money crop, jute.

Cattle and buffaloes are exceptionally important in predominantly vegetarian India, both for draught purposes and as a source of natural fertilizer as well as for milk production, far below the minimum requirements for health. Their number has been somewhat depleted by indiscriminate slaughter during the war years, but it is still estimated that the number of cattle and sheep is more than 30 per cent of the human population,⁹ their feed constituting a charge of 4.6 per cent upon the productive capacity of the number of acres sown.

The Social Background

For all its geographic unity, the Indian peninsula is an ethnologic mosaic. Many belong to the Aryan race, but there are also many descendants of the Dravidians who

inhabited the subcontinent before the successive invasions of Aryans, Scythians, Pathans and Moguls. There are numerous other distinct racial types, including the Mongoloid and the Turko-Iranian, and mixtures of the invading races with the Dravidian elements of the population, but the antecedents of the population are of less immediate interest for our purpose than its distribution.

The population of India averaged 250 per square mile in 1941, as compared with the 215 per square mile in the 1931 Census, excluding Burma, never an integral part of the peninsula and completely separated from India before the 1941 Census. Bengal has by far the densest population, 779 per square mile. Almost 90 per cent of India's population is purely rural, even if settlements with a population of over 5,000 are classed as towns. There were in 1941 only 2 cities with more than a million inhabitants, Calcutta and Bombay, and only 56 others with 100,000 or more, while 95 had from 50,000 to 100,000 inhabitants and about 321 from 30,000 to 50,000. The rural-urban ratio had remained fairly constant since 1891, though the pressure on the land is claimed to have somewhat increased, but the influx into cities has been accelerated by the large shifts of population which followed partition. As compared with some 4,200 communities classed as towns or cities, India had in 1941 over 650,000 villages; for the cultivators do not, as a rule, live scattered on separate farms as in the United States, the smaller size of the average holding facilitating the grouping of agriculturists in villages, mostly clusters of flat-roofed mud huts, from which they go out to cultivate their respective fields in the environs.

The population has grown steadily in the half-century since a regular Census was first taken. Infant mortality, however, is shockingly high, especially in the towns, in spite of the primitive and insanitary maternity arrangements in the rural areas. The infant mortality figure in India is said to be about 160 per 1,000 live births, as against only 30 in Australia and New Zealand. Over

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half of those born die before the age of fifteen. The expectation of life at birth is reported to be approximately 25 years, considerably less than half that in Great Britain, the U.S.A. and New Zealand. Climate and other natural circumstances no doubt contribute, as claimed, to rendering the people liable to many devastating epidemic and contagious diseases, but many of these diseases are preventible—not by the inoculations increasingly urged upon ignorant and docile folk but by sanitation, anti-malarial measures, and economic and dietary reforms. Such measures would save the country the hundreds of crores of rupees represented by the tremendous present wastage of efficiency as well as of life which these diseases involve, to say nothing of their incalculable dividends in human values.

India stands pre-eminent in philosophy, and her contributions to literature, to art and to science, modern as well as ancient, entitle her to an honourable place among the nations. The average Indian, however, despite a penchant for metaphysics, is no more a Bose or a Tagore than the average citizen of another country. He is typically a small cultivator, usually unlettered but not unintelligent, eking out his existence in poverty and discomfort on the produce of his few acres. He is generally frugal, but it is not surprising that, living in such straitened circumstances, he finds it difficult to lay up in a good year for the lean years to come. It must be a strong temptation to use the little surplus from an exceptionally good harvest for small comforts usually denied, and the occasional custom-dictated marriage or other festival may wipe out the savings of years and heavily mortgage the future.

Unfortunately, since the partition of India and even for some years before, the evils of sectarian orthodoxy and intolerance have revealed themselves as never before, culminating in the tragic death of Gandhiji. Discounting the part played in intercommunal clashes by lawless elements standing to gain from the attendant confusion and

also the part suspected to have been played sometime by *agents provocateurs*, there is ample evidence that the religious toleration for which India has been traditionally famous no longer characterizes the people to the same extent. The religions of pre-partition India were many with Hinduism decidedly in the majority, making up nearly 70 per cent of the population as compared with 22 per cent of Muslims, the remaining population being divided into Buddhists, Sikhs, Jains, Parsis, Christians, Jews, Brahmos, followers of tribal religions, etc. Most of the areas where there was a Muslim majority now form part of Pakistan.

In a culture whose roots go so far into the past, it is natural to find that custom has a greater sanctity and binding force than in newer civilizations, but some customs of long standing have changed under the impact of Western culture. Critics of the existing system have made much capital out of undesirable social customs claimed to inhibit India's progress, but the movement towards later marriage is encouraged by the Sarda Act of 1929, which penalizes parents who give in marriage children under certain ages. There never has been any seclusion of women in South India, and in the north it has affected chiefly city people of respectability, principally Muslims. The prejudice, however, against women earning money, and, in some parts of the country, against their helping in the fields, is deep-rooted and represents a handicap to economic prosperity.¹⁰

The increasing number of women finding employment in mills and offices, though still comparatively small, bears witness to the weakening of this prejudice to some extent, though it has sometimes been found a serious handicap to the recruitment of women co-operative workers, as in the Punjab.¹¹ As co-operative work among women spreads, the taboo will undoubtedly be relaxed. Even today, remunerative work for middle-class women inside the home causes no loss of standing.

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The caste system of Hinduism, originally 'simply a local method of dividing labour with the object of securing a maximum of social efficiency and responsibility with a minimum of social friction',¹² has hardened with the centuries into a rigid mould which hampers national progress. In the beginning the castes were not iron-clad hereditary divisions, but gave an actual indication of the stage of individual development. The four main castes correspond to the four principal functional groups in any civilization—the Bhahmans, teachers and priests; the Kshatriyas, rulers or warriors; the Vaisyas, merchants and agriculturists; and the Sudras, or labourers, the serving class. Occupation has been an element, though not the only one, in caste formation, every vocation giving birth to a new hereditary caste, until there are now over four hundred subdivisions of the original four castes, though birth in one of them is no longer binding in the choice of a vocation.¹³ Gradually endogamy became the social norm and social intercourse with those of lower castes, except in the larger towns, as also with those of no caste, the so-called 'Scheduled Castes' or Harijans, was frowned upon. There are millions of 'Untouchables' in India today, the amelioration of whose condition is a national problem of major importance in the Indian Republic. The economic if not the social problems of the group exist also in Pakistan. Under the inspiration of Gandhiji the National Congress in 1920 adopted the removal of untouchability as a vital part of its constructive programme,¹⁴ and already some change in the attitude towards this group is reported.

Only less, if not equally serious, from an economic point of view, is the low esteem in which manual labour is generally held, a weakness largely chargeable to the caste system. Throughout the country manual labour implies loss of dignity for the higher castes, and most of the population consider themselves debarred from certain types of 'demcaning' work;¹⁵ as though it were

the occupation that determined the dignity of the man, instead of vice versa !

The culture of the Indian peninsula presents a striking fundamental unity of pattern, for all its multiplicity of sources and despite the horizontal divisions of caste and the vertical ones of differences of creed and language and party.¹⁶

The language diversity¹⁷ is not only a barrier to communication but sometimes also to full mutual sympathy. The controversy between Hindi and Urdu or Hindustani as claimants to the role of national language was a contributory cause of Hindu-Muslim tension in pre-partition days, and the erection of several Indian languages into regional fetishes,¹⁸ with accompanying pressure for administrative divisions on linguistic lines are symptoms of the present spirit of divisiveness which they in turn strengthen. English, the language most commonly understood by educated people throughout the peninsula, is out of favour at the moment and the last Bombay Provincial Co-operative Conference, for example, was a babel of tongues.

The educated classes, however, form a lamentably small percentage of the total population. According to the 1941 Census, only twelve out of a hundred can read in any language. The percentage for women is only two.¹⁹ Compulsory primary education, free for all who cannot afford to pay, is still remote for most of the sub-continent. Even the Sargent Plan, formulated before the large-scale transfer of refugee populations which made the solution of all problems more difficult, envisaged forty years as a conservative minimum.²⁰

And even more urgent than the spread of primary education is the need, in the new political context, for adult education to provide an enlightened electorate.

The Hindu family, reckoning relationship by descent from a common ancestor within seven generations,²¹ was for long the economic unit of Hindu society. This fostered a spirit of self-sacrifice and mutual co-operation,

but discouraged individual initiative by removing the necessity and the reward for individual effort.²² The joint family system has, to a great extent, broken down in most parts of the country, leaving nepotism as one of its legacies.

The village system is the foundation rock of Indian economy. The Indian village was recently claimed by Shri K. S. Venkataramani to furnish 'the most compact and adequate social, political and economic machinery' for working out in daily practice 'the great basic ideals of "plain living and high thinking"', striking the happiest combination between work for self-sufficiency and service rather than for gain, and leisure for the higher things of life'.²³ It has been called 'the original type, the first germ, of all the divisions of rural and civic society in medieval and modern Europe'.²⁴

The traditional Indian village was typically almost self-sufficing, as many are to some extent still, with considerable division of labour among its members. The agriculturists grew all the food needed, the smith made the ploughshares and a few iron household utensils, the potter made pots, the weaver cloth, and the oil-man produced oil from oil-seeds, each recompensed by the services of his fellow-villagers.²⁵ This traditional village organization has handicapped to some extent the spread of subsidiary occupations among the cultivators, who in many parts of the country must be idle for about one-third of the year.

The village was the major political unit as well, elections being held for committees for various administrative duties, with age and property as well as educational requirements for candidates.²⁶ Wave after wave of invasion swept over the country without affecting the village structure. The state followed quite consistently the policy of non-interference, leaving the villages autonomous and confining the activities of the central government largely to the protection of life and property and the collection of the revenue for these duties.²⁷

The Economic Background

Any comparative estimates of the capital wealth of India, national or private, past or recent, must be highly speculative.²⁸ The peninsula is rich in natural resources and in man-power; its fabled wealth was the lodestone that first drew the East India Company to its shores in 1600. There is no doubt that the drain upon the country's riches in the meantime has been enormous, more than offsetting, some claim, the increased value of property which has followed in the wake of railways, irrigation projects and other British developments.

The isolated figures available, such as the capital invested in Indian railways, Rs 847·8 crores in 1938-9,²⁹ and in irrigation works, Rs 152·8 crores,³⁰ are inadequate for any thorough-going calculation of total capital wealth, such as the United States Bureau of the Census undertook some years ago for that country.

It is a safe generalization, no doubt, that the land represents the chief wealth in a country where so large a percentage of the population lives on the soil. Live-stock forms a higher proportion of India's total wealth than in most countries. Farm implements and machinery are relatively unimportant, though the use of improved types of implements is gradually spreading. Manufacturing machinery, tools and implements still form a comparatively small, though an increasing, fraction of the total wealth; the same is true of mineral products. Among a population so impoverished, clothing and furniture, which in the U.S.A. have been estimated to represent about one-eighth of the national wealth, must account for a very much smaller fraction of the total. Furniture especially is at a minimum in the houses of the poorer classes. Even beds are rare and lighting is a luxury which millions in rural India must forgo.³¹

Official bodies in various Provinces have attempted estimates of the average income of different sections of

the population from time to time. The Whitley Labour Commission made in 1931 the first attempt at a comprehensive survey of wages throughout the country, but its investigation was limited to conditions of labour in industrial undertakings and on plantations, leaving the great majority outside its scope. The scale of wages which it reported for unskilled labour has been forced up to some extent by the effect of inflation on living costs, but wages are still low enough to account for much of the growing industrial friction and unrest.

That Commission found that few unskilled manual labourers in industrial establishments in a majority of Provinces earned more than Rs 15 a month regularly, and that their wages were sometimes as low as Rs 10 a month. Unskilled male labourers temporarily employed in industries on daily rates earned from over 12 annas a day in the industrial centres of Bombay Presidency down to 5 annas in some parts of the Central Provinces. And the Commission stated that this class of worker earned appreciably more than the agricultural labourer on certain plantations.³² Masons in Madras, Bengal, Bihar and Orissa and the United Provinces averaged about Re 1 a day, and skilled two-loom weavers in the cotton mills of Bombay, where wages were relatively high, averaged Re 1-13-4 a day.³³

Sir V. T. Krishnamachari declared on 11 April 1948, in his presidential address at the Nineteenth Bombay Provincial Co-operative Conference, that the Indian standard of living was the lowest in the world, except perhaps in parts of China and Africa. There had, he said, been no increase in real income (though the money income might be higher) since Dr V. K. R. V. Rao had estimated in 1931-2 the per capita annual income of a rural resident in British India as between Rs 51 and Rs 48,³⁴ which in terms of the rate of exchange in October 1948 was the equivalent of between \$15.62 and \$14.70 a year, in American dollars.

The Reserve Bank in 1944 gave the estimate of Rs 65

for the per capita annual income in the country as a whole, and Rs 48 for the rural per capita average.³⁵

Among unofficial estimates of national and private income may be mentioned the thorough-going inquiry of Prof. K. T. Shah and Shri K. J. Khambata, who estimated the total national income in 1921-2 at Rs 2,364 crores³⁶ and the average per capita net income as Rs 57 per annum.³⁷

Gloomy as the economic position was in the twenties, however, it worsened greatly during the depression years, to improve to some extent under the artificial stimulus of war. The terrible Bengal and Malabar famines of the early forties, however, when the position generally was improving, brought home the lesson of how precarious is the margin between subsistence and starvation for the masses.

Assurance that, despite the inadequacy of average individual income, the economic and financial structure of the Republic of India is one of the soundest in the world may be drawn from the address of Shri R. K. Shanmukham Chetty, then Finance Minister, at Chidambaram on 25 April 1948. The total revenue of the Indian Government, he said, was about Rs 250 crores per year, and the combined revenue of the Provinces about the same, representing a combined total revenue of Rs 500 crores. The country had total obligations of about Rs 2,200 crores, against which it had Rs 1,450 crores in tangible assets, leaving a net indebtedness by no means considerable as national debts went.

In spite of this reassurance, however, the inflationary tendency of these times represents an important economic problem. It can be ascribed to several factors, including under-production of goods and over-issue of notes, the Government's unbalanced budget, the perhaps premature lifting of control on the necessities of life, and a too wide-spread attitude of 'profits first'. The nine economists called in consultation on the problem in August 1948 recommended the increase of industrial and

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agricultural production as a long-term corrective, with, for earlier effect, the reduction of public expenditure as far as possible, the raising of taxes on the rich, the launching of a vigorous borrowing programme and the re-imposition of control on the essential commodities—a step which was shortly taken.

The obvious need for credit facilities under the existing conditions throws into prominence the question of the country's banking structure. In the twenties, at the instance of the Central Legislature, Banking Enquiry Committees for each major Province, as well as for some of the smaller political divisions and for the country as a whole, investigated the situation, their terms of reference being quite wide,³⁸ and some of their findings of importance to the co-operative as well as to the joint-stock banking system. The Imperial Bank of India, which at that time headed the country's banking structure, fell short of being a true state central bank. It was not until 1934 that the Reserve Bank of India was established, though on a joint-stock basis, 'to regulate the issue of bank notes and the keeping of reserves with a view to securing monetary stability . . . and generally to operate the currency and credit system of the country to its advantage'. It was also given certain functions in relation to co-operative banks, its valuable service in the discharge of which will be considered separately.

In 1946 there were 96 scheduled and 56 co-operative banks with paid-up share capital and reserves of Rs 5 lakhs or over; and 289 non-scheduled and 309 co-operative banks with paid-up capital and reserves of from Rs 1 lakh to Rs 5 lakhs.³⁹

There are still few banks in the interior and still fewer clearing houses. Remittance facilities have been inadequate and the rates rather high as compared with other countries.⁴⁰ In many outlying parts the shroffs or indigenous bankers, with their network of offices and agencies, are the only medium besides the Post Office for the transmission of funds.⁴¹ These perform the principal

functions of a modern bank, except that they do not allow cheques to be drawn against customers' accounts.⁴³ The shroff has been the chief recourse of the cottage industries and the small organized industries and a not negligible factor in financing the larger ones. These indigenous bankers offer the advantages of personal and confidential relations with customers, constant accessibility, freedom from the formalities and delays of modern banking, and the keeping of accounts in the Indian language. Their dealings with their clients are generally straightforward, and a shroff's word is said to be better than an expensive bond.⁴³ The business of an indigenous banker is usually organized on a joint family basis with unlimited liability.⁴⁴ Most of them combine trade or a commission agency with their banking business.⁴⁵

The absence of bankers' acceptances and the infrequent use and discounting of negotiable instruments, necessitating a large movement of bullion and currency to adjust internal trade balances, have constituted a weakness of banking in India which applies less to the shroffs than to organized banking agencies. The shroff makes considerable use of credit instruments in exchange transactions, the sight or usance bills employed being termed *hundis*.

The forging of a link between the central banking institution and the indigenous bankers was pointed out by the Bombay Banking Enquiry Committee as of vital importance, not only to the evolution of a co-ordinated credit system, but also to the spread of banking facilities in *taluka* and other small centres.⁴⁶ The lack of correlation between the various agencies has been perhaps the basic weakness of the Indian banking structure. The Postal Savings Banks are merely agencies for securing deposits and have the same disadvantage as the organized banks of draining the rural districts of their surplus funds, which are urgently needed for financing agriculture.⁴⁷

The role of co-operative banking institutions will be discussed in detail later, but the subject of banking faci-

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lities cannot be dismissed without pointing out the entire inadequacy of the other credit facilities for the cultivators, artisans and small traders who make up the bulk of the population. Neither the Imperial Bank of India, the exchange banks, nor the joint-stock banks in general serve the small man, and the average cultivator is quite outside their province. Justice to their shareholders and depositors has been held to forbid their undertaking business in which the returns are uncertain and depend on such variable factors as the adequacy of the monsoon rains. The present banking structure, with the exception of the co-operative land-mortgage banks, is quite unable to provide long-term credit at low interest rates for such purposes as land improvement, to say nothing of debt redemption, and such credit is vitally important to the hoped-for economic regeneration. Even the shroff serves the mass of the cultivators but indirectly, by furnishing the money-lenders with much of the capital which they borrow from him at a low rate and lend in turn to their hapless clients at a high one.⁴⁸

The recent Agriculturist's Debt Relief Legislation in a number of Provinces will be discussed under the heading of Factors Conditioning Prosperity (p. 28), but must be mentioned here in connexion with the financial background.

A recommendation which will have a far-reaching effect upon the credit picture is that made in 1945 by the Agricultural Finance Subcommittee headed by Prof. D. R. Gadgil, appointed by the Central Government on the recommendation of the Policy Committee on Agriculture, Forestry and Fisheries, to report on the ways by which 'indebtedness could be reduced and finance, both short-term and long-term, provided under efficient control for agricultural and animal husbandry operations'.⁴⁹ That committee recommended that the necessary process of debt adjustment for all solvent debtors should be accompanied by complete reconstruction of the financial structure.⁵⁰ Specifically, it proposed the setting up by the

Provinces of Agricultural Credit Corporations to make mortgage finance available and to supply the credit needs of all credit-worthy borrowers. It would work preferably through co-operative societies for short-term and intermediate loans to the smaller cultivators. The committee provided in its recommendations that where the Provincial Government felt that the co-operative financial agencies were sufficiently developed to undertake all the work proposed for the Agricultural Credit Corporation, no separate corporation need be set up.⁵¹

The Bombay Government has already approved the finding of its Agricultural Credit Organization Committee, headed by Sir Manilal B. Nanavati, that no separate corporation need be set up there. Though the committee did not visualize the possibility of very early provision for all credit-worthy agriculturists through the co-operative societies, it yet felt that the Co-operative Movement, suitably organized, could come closer to that goal than the proposed Agricultural Credit Corporation, starting *de novo*, would be able to do within the next ten years.⁵²

The systems under which land is held represent another factor in the economic background. The basic theorem in the system of land-holding in British India, as in England itself, is the idea that all land belongs, in the final analysis, to the state, which, as the supreme landlord, receives revenue from the land as rent, in return for protection and legal security. Actually, however, the British Government everywhere conferred or recognized a private right in land.⁵³

Where land revenue is fixed in perpetuity and paid by the landlord, it is called a 'Permanent Settlement'. Under this system the actual cultivators are not small proprietors, but tenants. This has been the situation in Bengal and the greater part of Oudh, which has been joined with Agra to form the United Provinces, and also in some sections of Madras. Bihar too was till very recently a zamindari Province.⁵⁴ There and else-

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where the land revenue is figured at intervals of about thirty years on the basis of a thorough survey, and the settlement is known as 'Temporary'. Land tenures under it may be landlord holdings, on which the landlord pays on a rental assessment, or peasant holdings, which again are of two kinds. Under one, each occupant holds his land directly from the Government, as in Bombay, Assam and most of Madras, while under the other, which prevails in the north, the land is held by the village community, the heads of the village being responsible for the revenue on the whole area of the village. The assessment is based on actual revenue at the time of the settlement, and improvements effected by private enterprise are exempt from assessment.⁵⁵

The maximum revenue charge for landlord holdings has usually been 50 per cent and may be as low as 25 or 35 per cent of the rental, while for peasant holding assessments one-fifth of the gross produce is the extreme limit, with considerable variation below that.⁵⁵ There has been much complaint against the land revenue as excessive, but the Government always stoutly denied that taxation was either immoderate or burdensome and that over-assessment was, as alleged, a general or widespread cause of poverty or a contributory cause of famine.⁵⁶

Small holdings, cultivated with the peasant's own labour, predominate, very large holdings being confined almost wholly to the great plantation industries like tea, coffee and rubber, which take up nearly 1,000,000 acres, chiefly in the north-east and extreme south,⁵⁷ representing considerably less than half of 1 per cent of the cropped area. In 1927-8, 52 per cent of the land was held by the peasant cultivators directly from the State while 48 per cent was held by landlords.⁵⁸ Whether the *ryot* holds his land directly from the State or as the tenant of a zamindar depends chiefly on the section of the country.

Investigation some years ago convinced Dr H. H. Mann, former Director of Agriculture in Bombay, that the average rental paid to landlords was half the return the cultivator could make, the burden of rent being much greater in the case of large estates.⁵⁹ The peasant proprietor obviously is better off, too, from the standpoint of security for credit.

Subinfeudation probably has gone farthest in Bengal, where many intermediate tenures between the proprietor and the cultivator have been the rule. One Bengal estate was found by the Provincial Banking Enquiry Committee in 1930 to have thirty such intermediate tenures, one under another.⁶⁰ Even where tenancy is general, however, the agriculturist has often certain occupancy rights.

A Zamindari Abolition Bill has been introduced in Bihar; another in Madras; and in Bombay, whose Tenancy Act of 1939 had already encouraged non-agriculturists to relinquish their lands,⁶¹ further legislation to protect the tenant and to prevent the sale of lands to non-agriculturists was recently reported as contemplated.

Sir Manilal Nanavati was quoted in July 1948 as saying that 30 to 60 per cent of village lands were owned by absentee landlords and adding, 'If Indian agriculture is to be placed on a sound footing the elimination of this *rentier* class should be demanded in no uncertain terms'.

Peasant holdings are reported largest in Bombay and the Punjab. In the former, however, fragmentation increased so rapidly between 1904-5 and 1943-4 that in the latter year no less than 49 per cent of the holdings (comprising, however, only 9.5 per cent of the total area) were of less than five acres.⁶²

The average cultivated holding for the country as a whole has been estimated at approximately five acres for a rural family of five,⁶³ countless cultivators owning still less.⁶⁴ The subdivision of holdings into such small

units must be laid at the door of the inheritance laws of the Hindus and Muslims, although the gradual decline of the joint family system among the Hindus no doubt has played its part. More serious still, the peasant's small property often is split into innumerable fragments, sometimes too small to be cultivated without trespass on neighbouring land. The requirement that all heirs shall share equally in the immovable property of the deceased has been commonly interpreted as meaning that the few acres received by each must be split into as many fragments as there are different soils in the village, so that all may get equal shares of all different kinds of land.⁶⁵ Efforts have been made in the Punjab and elsewhere to cope with the difficulty through co-operative activity.

Estimates of the volume of internal trade are bound to be inaccurate, even in countries more advanced economically. It is probably safe to assume that in India, with its great population, internal trade has been considerably in excess of foreign commerce, but the discrepancy tends to be reduced by several factors, such as the large proportion of the people living in villages which have been traditionally self-sufficient and still are so to some extent, the meagre cultivation of cash crops as compared with maintenance crops, inadequate transportation facilities, and especially the general poverty, which so greatly limits effective demand. The incomplete standardization of weights and measures generally has been another inhibiting factor.

India ranks high in value of total imports and exports, and her balance of trade had until recent years been almost invariably favourable.⁶⁶ She has not produced enough to feed her own people adequately but in the recent past was exporting as much as one-eleventh of her agricultural produce. The great export staples have been jute, cotton, oil-seeds, tea, hides and skins, wool and tobacco and formerly food-grains, especially rice and wheat.⁶⁷ Cotton and cotton goods represented

14.6 per cent of imports in 1938-9.⁶⁸ Other important imports are metals and ores, machinery and mill-work, sugar, oils and vehicles;⁶⁹ and in recent years of scarcity, food-grain imports have assumed vital importance.

Inadequate transportation facilities were mentioned as conditioning the development of internal trade. As early as the middle of the last century the importance to India of transportation was recognized by the far-sighted Lord Dalhousie, who outlined the system that has been followed in the development of the Indian railways.⁷⁰ It is, however, a great pity that piecemeal attack upon the problem resulted in the adoption of different gauges, complicating internal transportation and adding to its cost by making necessary much transshipment and reloading of goods waggons which a standard gauge would have obviated.

India's total route mileage in 1940-41 was 41,052 miles,⁷¹ over two-thirds of the total mileage being owned by the State. The railways have undoubtedly played an important part in averting a larger number of serious famines in recent years by making the reserves available in normal times to the whole of India; the dislocation of transportation facilities during the war was, however, one of the contributory causes of the terrible Bengal famine of 1943.

In addition to the railways, India had in 1943 95,054 miles of metalled roads.⁷² Motor transport is still a relatively negligible factor in the transportation situation, and no doubt will remain so until the cultivators' economic condition shows marked improvement. The petrol shortage is a further handicap. The road system in general is sadly inadequate even for bullock-carts. Innumerable villages are practically isolated during the monsoon months, only a small proportion being near railways or good roads.⁷³ Better communications are indispensable to the development of subsidiary occupations no less than to the encouragement of intensive cultivation.

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The Co-operative Planning Committee pointed out the need for a large expansion of the means of transportation if farm equipment was to move freely, to say nothing of farm produce. It recognized such an expansion as lying largely outside the scope of the Co-operative Movement, though something could be done by the organization of transport co-operatives and of labour co-operatives for the construction and maintenance of roads. It pointed out not only that British India had a road mileage of 35 per 100 square miles, the corresponding figure for the U.S.A. being 100 and for the United Kingdom 200, but also that the position regarding coastal shipping and inland water transport was unsatisfactory.⁷⁴

The progressive nationalization of transport facilities, understood to be called for by the Government policy in the Indian Republic, should be in the interest of all-round improvement and standardization.

The Industrial Background

The fundamental importance of agriculture in national and world economy was forced upon public notice by the food shortage and the resulting sufferings in many countries during and since the Second World War, bringing home the truth of the saying of the ancient Tamil sage, Tiruvalluvar, that 'the tiller of the soil is the axle-pin of the revolving world'.⁷⁵ This applies pre-eminently to India, where over 70 per cent of the people live by agriculture,⁷⁶ if we call 'living' the hand-to-mouth existence of the majority.

The rural population are devoted to the land and loath to leave it for industrial labour or domestic service in the cities if this can possibly be avoided, but migration in search of work is a common feature of rural life in some provinces, notably the Punjab and Bihar and Orissa. Such migration, where it occurs, is not in the main a permanent exodus, but only a temporary transfer.⁷⁷

The resulting abnormally high labour turnover is a disadvantageous feature of Indian organized industry. India has for some time been feeling the growing pains of modern civilization in a reflection of the unfortunate conditions which have accompanied the industrial revolution in every Western country, and distressing conditions are found among the labouring classes in the larger industrial centres.

Relatively small as is the proportion of the population of the Indian peninsula which is supported by industries, transportation or mining, India had in 1943 nearly 2,437,000 factory workers, 361,000 mine workers and 827,000 railway workers.⁷⁶ India had for years been classed by the International Labour Organization as one of the world's eight most important industrial States and as such had a permanent seat on its Governing Body.⁷⁹

Dr. Colin Clark calculated in 1947 that production per man-hour of work in India was only 1/14th of man-hour production in the United States, basing his computation on output statistics.⁸⁰ The production figures from India's main industry—agriculture—being largely speculative, too much importance need not be attached to this depressing comparison, but reasons for a smaller output of labour in India would not be hard to find, e.g. the wide-spread under-nourishment and preventible disease and, in the case of factory workers, the overcrowding and the unnatural conditions under which migrant labourers are forced to live, to name only a few of many factors.

The income from manufacturing industries was estimated in 1920-21 at about 1/11th of the value of agricultural produce.⁸¹ If this estimate is trustworthy, the proportion of industrial production is undoubtedly higher today, due to the war stimulus, though the relatively greater increase in agricultural prices in the last few years has helped agriculture to hold its own. According to that estimate, textiles, with cotton and jute

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leading, accounted for about 40 per cent of the total income from manufacturing; handicrafts and cottage industries, in which also textiles are prominent, for 21 per cent; and food beverages for 28 per cent, the remainder representing leather, paper, etc., together with power supply.⁸¹ The recent attitude of labour, which wage concessions seem not to have improved materially, hampers production.

There have been small industries springing up all over the country for the last several decades, and a marked tendency was reported in 1931 for the primary manufacturing processes for agricultural products, such as sugarcane crushing, oil-seed pressing and rice hulling, to extend increasingly to the small towns and larger villages.⁸²

The cottage industries continue to occupy an important place in the economic structure. In 1928 hand-loom weaving was still providing employment for more people than the textile mills.⁸³ The *Swadeshi* Movement brought *khaddar*, hand-spun and hand-woven cloth, into unprecedented popularity but, though hand-loom weavers were used to a certain extent in the preparation of war contracts, they have often fared ill in the allocation of scarce yarn. A determined effort is being made by the Co-operative Departments in several Provinces to rehabilitate the industry and to place it on a sound footing, but the economic condition of the hand-loom weavers is still generally wretched.

While a large percentage of workers in the cottage industries are in the textile field, there are other important cottage industries, including tanning and leather-work; earthenware, tile, brick and porcelain; basket-making; metal-work; oil-pressing; the food industries; printing and lithography; bangles and beads;⁸⁴ lacquer and toys.

Pessimists have not been wanting to point out the impossibility of damming permanently the stream of industrial progress and to claim that organized industries

must come sooner or later to dominate the situation and that the artisan must go under in the struggle against superior organization and resources. In spite of the efforts to spread co-operation among workers in the cottage industries, those in the cities are still largely under the control of the money-lender.

There is not space to consider at any length the case for and against greater industrialization for India. It is urged by some economists as the only salvation for the masses from crushing poverty. Sir Manilal Nanavati only recently wrote that 'the fundamental cause of India's poverty is the excessive pressure on land and diminishing yields due to the crowding of people from all directions into this single occupation'. But to recognize the need for diversification of occupations is not necessarily to approve the Western factory system, which at its worst has caused untold misery and at its best has been held by other thinkers to fall far short of the traditional Indian village pattern of life, in terms of real and lasting human values, of which material wealth is not the chief. 'Villagism' as opposed to large-scale industrialization has such staunch advocates as Shri K. S. Venkataramani and Shri J. C. Kumarappa, perhaps the most convincing exponent of Gandhiji's economic theories.

The mistake is sometimes made of assuming that economic prescriptions valid for countries where men are the critical factor in the familiar production formula of men, materials, money and the *entrepreneur* will work as well under quite different conditions. The enthusiasts for large-scale cultivation and labour-saving machinery too often overlook the basic fact that India is fabulously rich in labour; relatively poor, despite its vast extent, in land and, still relatively to man-power, poorer still in other material resources. Increased production is exceedingly desirable, no doubt, but so is wholesome and adequate employment for the hundreds of millions who inhabit the subcontinent. Any methods which re-

duce employment opportunities, however valuable in a country where man-power is relatively scarce, must be critically viewed in the Indian context.

An excellent case can be made out for local industries and small-scale farming, with improved methods and adequate but controlled credit, as holding the better solution for the new nations, combining a considerable increase in production with wider opportunities for subsistence, if not yet for the good life for all. Man does not live by bread alone and no people are better fitted by temperament than the Indian villagers, unspoiled by contact with Western materialism and ambition, to appreciate the Chinese saying, 'If you have two loaves, sell one and buy a lily'.

The Economic Programme Committee has fortunately kept in mind the desirability for the Republic of India of decentralization of production, with regional self-sufficiency the aim, and the encouragement of cottage industries, organized for effectiveness on a co-operative basis but free from the authoritarian concomitant of planning as found elsewhere.

The Political Background

No discussion of India's national economy can be complete without at least a brief consideration of the political situation and the causes which have led up to it.

Village autonomy has been a tradition from the dawn of history, and our knowledge of political conditions in India goes back several centuries B.C. The village had only the most tenuous connexion with the central authority before the coming of the British, the tax paid by the village to the Government collector having been for centuries practically the only link with it. Municipal functions in ancient India included the preservation and maintenance of public halls, temples, tanks, rest-houses, wells for the supply of drinking water to

travellers, construction of water courses and relief of the distressed.⁸⁵

Foreign historians between the fourth century B.C. and the seventh century A.D. recorded that India was prosperous under the Hindu kings, that justice was administered impartially, and that taxes were levied with equity.⁸⁶ From A.D. 646 on, the Muhammadan conquerors controlled various portions of the country, their dominion culminating in the Mogul Empire which lasted from 1526 to 1761,⁸⁷ but the central authority, Hindu, Buddhist, or Muslim, rarely, if ever, interfered with the internal administration of the village.

Such was the situation when the East India Company after 1600 assumed an increasing measure of control of the government of more and more of the country, the break-up of the Mogul Empire in the eighteenth century giving it its great opportunity by almost forcing it to strengthen its position. The anarchy which followed that break-up, before the Company could put an end to it, is claimed to have undermined the foundations of the ancient system of village government.⁸⁸ The internal administration of the villages remained practically unaffected during the Company's tenure of power, but, apart from that, the people were long excluded from any participation in the administration of the country,⁸⁹ though they were increasingly associated in the Government in recent decades.

From 1784 on, the Company was subject to the Board of Control in London, presided over by a Cabinet Minister.⁹⁰ The Sepoy uprising of 1857 led to the termination, in the following year, of the Company's rule and to Great Britain's assumption of direct political authority over all the country except the so-called Indian States. The latter, under Indian Princes, had practically complete local autonomy, but not full sovereignty, as the Empire had entire control of their foreign affairs and maintained gratuitous advisers at their courts. Hyderabad, eight times the size of Belgium and with twice as

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many inhabitants as the Netherlands, is much the largest of the Indian States, but Mysore has more people than Sweden, and Gwalior more than Denmark.⁹¹ It may be mentioned in passing that, while conditions in some left much to be desired, several of the Indian States have given evidence of a more enlightened policy than was followed in British India proper, with their higher percentage of literacy and more advanced social legislation.

The rapid centralization of authority in British India which followed the British Government's assumption of direct control ignored the indigenous self-governing bodies of the villages. Despite the efforts made in recent years to restore the village Panchayat to power, local self-government, up to the reforms of 1919, consisted largely of Municipal Boards and District Boards for urban and rural areas, respectively, of comparatively recent introduction⁹² and with no roots in the soil. The powers restored to the Panchayats in many cases since then include control of water supply, lighting, and grazing rights, and responsibility for the clearing of the village, the repair and construction of roads, etc.⁹³

It is not necessary here to detail the story of the British connexion with India from 1857 till 1947, when, by one of the greatest moral victories in history, a victory which owed, however, not a little to the social conscience of the Party in power in Britain, India won her longed-for freedom and the two new nations assumed the responsibilities of self-government.

Important for our purpose, however, was the transfer to Provincial control by the Act of 1919 of a number of subjects, including local Self-Government, Public Health, Education, except European and Anglo-Indian, Public Works, Agriculture, Fisheries, Industries, Excise and Co-operative Societies.

The idea of Nationalism in the modern sense is an exotic plant, imported from the West. The writings of Western liberals and the example of Western demo-

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cratic procedures, the influence of the Theosophical Movement in restoring respect for India's traditional philosophies and culture, the literary revivals in the indigenous languages and such religious movements as the Arya Samaj, all played their part in arousing national pride and faith in India's mission.

The Indian National Congress, formed in 1885 and now the party in power in the Indian Republic, led the freedom movement in which all communities participated, its policy, to the country's credit, taking its colouring from the doctrine of non-violent non-co-operation preached by Gandhiji. After many vicissitudes and struggles, independence came, though at the cost of the vivisection of the cultural and economic unity in diversity that was India. The disturbances that followed partition, and the mass transfers of population that resulted have made things more difficult for both countries which have taken their places in the comity of nations. The question of Kashmir finally settled, both Dominions can settle down to the fruitful collaboration which means potentially so much to both.

FACTORS CONDITIONING PROSPERITY

We have considered rather cursorily the outstanding features of the situation in which the Co-operative Movement, its achievements and its possibilities, must be considered. Let us analyse in somewhat greater detail some of the factors conditioning a sound national economy for the nations of India and Pakistan no less than formerly for undivided India.

One of the most serious of these at the moment, though by no means necessarily a permanent obstacle to progress, is the major dependence upon a single industry, already discussed. The Royal Commission on Agriculture, reporting in 1928, took a rather pessimistic view of the possibilities of increasing the proportion of the popu-

lation supported by industry, holding that the pressure on the land could best be relieved by the diversification and intensification of agriculture.⁹⁴ That there is room for such improvement is obvious. Rice production in India averages only 1,240 lb. per acre, compared with 3,444 lb. in Japan and 4,568 lb. in Italy. Wheat production in India averages 660 lb. per acre, whereas pre-war Germany was producing 2,017 lb. and Egypt, Japan and Italy over 1,300 lb. There are many causes, including soil deterioration, deficient rainfall, unsatisfactory cropping systems, lack of good seeds, etc.⁹⁵ With better methods of cultivation it is claimed that far greater yields are obtainable,⁹⁶ but irrigation projects and other land improvement schemes are required for best results, and these presuppose state undertakings for the former and the availability of capital for long terms at reasonable rates for such efforts as the cultivator himself must make.

Apart from the need for improved methods of cultivation, the general wastage of the cultivators' considerable leisure is a serious problem. His three idle months in the year have been well called 'too long a vacation without pay'.⁹⁷ Additional sources of income are a great need if his economic position is to be improved.

But neither improvement of the methods of cultivation nor the provision of opportunities for the gainful use of leisure will insure much greater prosperity to the peasant unless improvement is effected also in the channels of distribution, including not only better transportation facilities but also better marketing methods. The latter are necessary to secure to the peasant a more equitable share in the profits of production, but these in turn cannot hope to attain the greatest possible success until the general level of education of the agriculturists is raised and unless the cultivator controls the disposition of his own crop, the latter depending on the adequate solution of his credit problem.

Standardization and organization both have to make great strides before the cultivator will have a fair share in the ultimate price of his produce. Price Control Boards for certain products, as visualized in the report on *Agricultural Marketing in India*,²³ may be part of the solution. But the organization of producers is indispensable to their having a bargaining power equal to that of the strongly entrenched private interest by whom distribution is still largely controlled.

A major obstacle to an improved distribution system, as it is to better cultivation methods and to a higher standard of living, is the present wide-spread illiteracy. Ignorance invites exploitation by cunning. The inability of so overwhelming a majority to read, moreover, results inevitably in some narrowness of outlook and exaggerated conservatism, though it by no means follows in India that an illiterate man is an unintelligent one. The glaring deficiencies of the country's educational system, however, have surely been responsible in large measure for the rural stagnation which some consider one of the most serious of the present problems.²⁴ Many writers have dwelt on the apathy and hopelessness of many an Indian village, whose energetic citizens have in numbers left for the cities, leaving the masses without their natural leaders. Dewan Bahadur Kaji draws a picture of the Indian village at its most depressing:—

No recreation facilities, no social amenities Streets, tortuous and a trap for the unwary, are drains in the rains Sanitation and ventilation are badly neglected and medical aid is sadly absent.^{25a}

Education can do much to better as well as to brighten the cultivator's lot. Education on right lines, for example, would certainly help to bring about a healthier respect for all honest labour, and so promote unity among different strata of the population. It might incidentally break down the average Indian's

philosophical indifference to the accumulation of wealth, at least to some extent. It would be a disservice to the villager to cause him to substitute for his ideal of contentment with little the common Western concept of happiness as dependent on the satisfaction of an increasing number of wants, but there can be no objection to arousing such legitimate desires as those, for example, for the conditions indispensable for health and a modicum of comfort.

No thinking person with the Indians' good at heart would wish them to surrender their spiritual heritage in exchange for the civilization of the West in its totality, but, just as the West has much to learn from India of philosophy and spiritual attitude towards life, so India stands in need of the best the West has achieved in the conquest of physical nature. India's task is to discover the middle ground between spurning material comfort and prosperity and regarding them as ends in themselves. If she can find the way to prosperity without ceasing to regard material things as, at best, but means to the end of a deeper and fuller life, the background against which is enacted the perennial drama of soul evolution, she will have laid the world under an incalculable debt.

The average per capita income cited is hopelessly inadequate to meet the primary requirements of food, clothing and shelter. As it is not feasible to starve one in three individuals outright, it becomes common practice to cut out one of three meals required with resulting deterioration in physique and energy.

The Indian Government, like that of Pakistan, and the individual proprietor alike find themselves caught in the same vicious circle. The improvement of economic conditions depends in large part on the development of resources. But the prosecution of land-reclamation and transportation projects by the State and of small-scale schemes of irrigation and land improvement by the cultivator alike demand expenditure out of pro-

portion to their present means. The great poverty of the country after centuries of exploitation and the poverty of the average cultivator prevented in undivided India the taking of adequate corrective measures. The need for checking inflation today imposes an additional check on Government and personal spending. Much heavier taxation, except of the rich, is unthinkable without an increase in average individual income. This, at present, affords in most cases barely enough for subsistence and cannot stretch to improvements, however desirable and promising of increased returns.

The housing situation has steadily worsened during the depression and the recent war, due largely, during the depression, to economic reasons and, during the war years and since, due also to the shortage of materials and to transportation difficulties.

Bad as housing conditions are among the rural population, the industrial workers in the cities are, if anything, worse off. The Royal Commission on Labour reported nearly all workers in Madras, Calcutta, Howrah, and Cawnpore living in single rooms. An official investigation in Bombay in 1921-22 indicated that 97 per cent of the working-class population were living in one-room houses with six to nine persons to a room. In Ahmedabad, the Labour Commission Report indicated, 73 per cent of the working classes were living in one-room tenements, and in Karachi about one-third of the population was crowded six to nine in a room. In the busiest centres the houses are crowded together, ventilation is inadequate, and sanitation neglected."

Pessimists have pointed to defects, inherent or recently acquired, as conditioning factors in mass betterment. The morale of the Indian villager has been traditionally high, but it has not been strengthened by such influence as has percolated down to the villages from the Western contact. The force of custom and of public opinion, which formerly exerted some control over money-lenders'

practices is claimed to have weakened. The centuries-old harmony between the representatives of different religions in the villages has been disastrously disturbed by partisan propaganda. The announcement that the country is now free has conveyed to certain simple minds a quite exaggerated notion of the liberty of individual action which national freedom implies. The hordes of ticketless travellers in recent years are an expensive but relatively innocuous expression of the wide-spread sense of old restraints removed. There has been, too, a deplorable amount of black marketeering and of corruption, mostly on a petty scale, but this does not involve the rank and file of the villages or the factories and we may feel considerable confidence that the sterling qualities which have been thousands of years in the building cannot have been permanently undermined overnight.

One factor which helps keep the masses poor is the force of custom, social and religious. The orthodoxy of the majority demands regular ceremonies for the dead etc., involving payment to the priests which the poor villager can ill afford. And social tyranny is no less rigid. The amount which custom demands be spent in connexion with a wedding in the family is commonly altogether out of proportion to the income of the cultivators or the factory workers, and a not inconsiderable portion of the debt burden has been incurred for such unproductive but religiously or socially dictated outlays.

Unnecessary borrowing apart, however, poverty being so general and income so frequently inadequate to cover the cost of barest subsistence, credit becomes a vital necessity and it is not surprising that indebtedness has been a major problem alike of the agriculturist and the industrial worker. The Central Banking Enquiry Committee in 1931 estimated that rural indebtedness alone amounted to Rs 900 crores.¹⁰⁰

It is normal for the agriculturist to borrow. As the Nicholson Report of 1895 put it:—

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The lesson of universal agrarian history is that an essential of agriculture is credit. Neither the nature of the land-tenures nor the position of agriculture affects the one great fact that agriculturists must borrow. . . due to the fact that an agriculturist's capital is locked up in his lands and stock. . . Hence credit is not necessarily objectionable, nor is borrowing necessarily a sign of weakness.¹⁰¹

The debt burden in India would not have become insupportable if the country had been prosperous and the debt had represented borrowing for productive purposes only. Neither of these provisos has been met, however, and the load of debt has undoubtedly been one of the most serious obstacles in the way of economic advance. The problem had become more serious in recent years. In an investigation of agricultural indebtedness in 312 Hyderabad villages in 1937, Shri S. M. Bharucha found that in the preceding fifteen years over one-tenth of the occupied area had passed out of the hands of the cultivators and into the possession of money-lenders and village officers.¹⁰² He reported it a common practice for the *sahukar* in Marathwada villages in that State to get the illiterate, heavily involved debtor to execute two documents, one a mortgage deed with possession in favour of the *sahukar* and the other an agreement to cultivate the land as tenant. The victim might not know for years that his position was that of tenant-at-will and not owner.¹⁰³

For the causes of the peasants' indebtedness we must look partly to the weaknesses already mentioned in the economic structure and partly to the uncertainties inherent in an industry dependent to so great an extent on climatic conditions, but largely, too, to such credit abuses as that mentioned above, and the high interest rates which have been so general. The Royal Commission on Agriculture reported that uncontrolled usury was one of the worst evils from which the Indian cultivator had to suffer.¹⁰⁴

The institution of the money-lender in India dates

from very ancient times. His function has been indispensable and the disrepute into which he has fallen in recent years is due to the malpractices which have come to be associated with its exercise. It would be a mistake to picture money-lenders as a separate and distinct class. Their ranks merge almost imperceptibly into the general population, since so many non-professionals with a little spare cash engage in money-lending, at least as a subsidiary occupation.¹⁰⁵ The money-lender, known in different parts of the country as the *sahukar* or the *mahajan*, is frequently the peasant's merchant and broker as well as his banker, supplying him with all he needs for living and agricultural purposes and selling his produce for him. His interest rates vary from Province to Province and within the same Province, but they are uniformly high.

The interest rate of 37·5 per cent was usual in Bengal before the co-operative societies came.¹⁰⁶ Where interest is levied in kind it is consistently higher than the prevailing money interest, sometimes as high as 50 to 100 per cent. A mortgage is often taken on the borrower's crop or, where the sum is large or the term long, on his land,¹⁰⁷ though in some Provinces, like the Punjab, the Central Provinces and the United Provinces, agriculturists are protected from the permanent loss of their land to a creditor who is not himself a cultivator, mortgages held by non-agriculturists lapsing automatically at the end of twenty years without any payment on account of redemption.¹⁰⁸

The collection methods of the Pathan, the migratory usurer from the North-west, are particularly objectionable. He relies upon intimidation and sometimes violence for the recovery of his loan and his usual victims are afraid to make complaints.¹⁰⁹ The law in some Provinces permits imprisonment of male debtors at the creditor's expense, in the execution of a decree—six months for more than Rs 50 and six weeks for smaller sums. The penalty is seldom invoked, but the threat is a powerful weapon for the money-lender.¹¹⁰

The risk is often great and the losses are heavy, so that money-lenders' rates are perhaps not wholly indefensible. It has been estimated that Indian money-lenders probably do not average over 15 per cent a year on their capital.¹¹¹ Not so the Kabuli money-lenders operating in Hyderabad in 1937 who were said to be more than doubling their capital annually, making small loans to the poorest people at an interest rate of 75 to 150 per cent per year.¹¹²

The credit problem of the industrial workers is quantitatively smaller than that of the agriculturists only because of the greater numbers of the latter. The Whitley Labour Commission estimated that two-thirds at least of families or individuals in most industrial centres were in debt, and had been 'impressed by the number of cases in which an industrial worker is obliged to stint himself and his family of necessities to meet interest charges without the faintest prospect of ever being able to reduce the principal'.¹¹³

In most Provinces and States, laws have been enacted to reduce the agriculturist's debt burden to bring it within his repaying capacity, the Debt Conciliation Boards working generally on a voluntary basis. The Bombay Agricultural Debtors' Relief Act, 1939, however, provides for the compulsory adjustment of debts of cultivators not exceeding Rs 15,000. The hesitation of a debtor to apply for relief lest he should antagonize the money-lender was taken into account and if the debtors did not apply to the Debt Relief Courts, the creditors had to do so within a stated period on pain of the debt being deemed to be discharged.¹¹⁴ The Agricultural Finance Subcommittee deplored the absence of systematic inquiries into the working of the Debt Relief Acts.¹¹⁵

Paralleling the Debt Relief legislation went attempts in all Provinces in the thirties to regulate money-lending by fresh legislation or by amendments to the Usurious Loans Act of 1918,¹¹⁶ which the Royal Commission on Agriculture had asserted in 1928 to be practically a dead

letter in every Province.¹¹⁶ In all Provinces maximum interest rates on secured and unsecured loans were fixed. The Madras Debtors' Protection Act of 1935, amended in 1936, fixed the maximum rates at 9 per cent for secured and 15 per cent for unsecured loans.¹¹⁷ In some Provinces compound interest was prohibited; some required the licensing of money-lenders, in addition to the compulsory registration required by practically all. Some called on money-lenders to maintain regular accounts and to furnish them to the debtor periodically or on demand. In almost all Provinces also the law of Damdupat was applied, according to which rule the amount of interest recoverable at any one time cannot exceed the amount of the principal.¹¹⁴

The Bombay Banking Enquiry Committee held that the working of one of the earliest of the Acts directed against usury, the Dekkhan Agriculturists' Relief Act of 1879, had shown that the more restraints were placed on a money-lender, the worse became the borrower's position.¹¹⁸ Honest money-lenders had been driven from the field and such practices had been encouraged as taking bonds from illiterate debtors for much larger amounts than they had received.¹¹⁹

Money-lenders generally have exhibited a cleverness worthy of a better cause in evading the provisions of the new Acts, though some of the smaller money-lenders are reported to have found the restrictions so burdensome that they have wound up their business, thus restricting the credit available to the agriculturist.¹²⁰ It is generally agreed that the money-lender, still the chief supplier of credit to the cultivator, is a necessary evil in the present credit structure, and his harassment beyond a certain point may react disadvantageously upon the agriculturist, as did the well-meant and otherwise beneficent debt legislation, in so far as it reduced the borrower's credit-worthiness in the money-lender's eyes.

The Bhavnagar Khedut (Villager) Debt Inquiry Committee brought out in its report that the freedom from

debt of 55 per cent of the villagers in that State did not necessarily mean prosperity. 'Debt follows credit', and the debt-free villagers were so because they were so poor and their credit was so low that no money-lender even would lend to them.¹²¹

The Royal Commission on Agriculture remarked that 'the worst policy towards debt is to ignore it and do nothing', and there can be little doubt that the following of that policy by the Government of Bihar, which had neither land-mortgage banking nor a debt conciliation programme through the depression years,¹²² contributed materially to the serious plight to which the Co-operative Movement came in that Province.

Important as are such ameliorative measures as described, however, attacks upon indebtedness alone are futile in the long run. As pointed out by the Reserve Bank, where debt is a chronic feature of the farmer's life

it can only mean a permanent disequilibrium between his income and expenditure. The disease thus is the deficit budget and if the symptom—debt—is to be removed, the causes of the deficit budget must be treated first.¹²³

The rise of agricultural prices in recent years has had a marked ameliorative effect in most of the peninsula. An analysis of this effect upon cultivators in the Lyallpur District of the Punjab in 1947 showed that more than half the debts they owed to co-operative banks had been paid off during the preceding four years, while the demand for fresh loans had declined substantially.¹²⁴

There has, of course, been a parallel though not equal rise in the prices to cultivators of other necessities of living and of cultivation, and those with a small surplus production have benefited relatively little by the higher prices of agricultural products. The Sind Registrar reported for 1942-3 a very heavy debt burden upon small cultivators and tenants,¹²⁵ against which we may set the report that in the small Delhi Province 89 per cent of agricultural credit society members were free from debt.¹²⁶

THE BACKGROUND

It took a long time and many and sometimes disastrous experiments to bring home the lesson that an all-sided approach to the small man's difficulties was required. It was the credit problem which loomed largest when Sir Daniel Hamilton declared that 'the power which stands in the way of India's development is the power of evil finance . . . the want of a banking system for the people. The people have many bankers but no bank.'¹²⁷

It was the wide-spread sharing of that conviction that prompted the launching of the Co-operative Movement in India as a credit movement, and for long determined its course.

CHAPTER II

CO-OPERATION—GENERAL AIMS

NUMEROUS definitions of co-operation have been attempted. Two good ones are Sir Horace Plunkett's 'Self-help made effective by organization',¹²⁸ and Mr Hubert Calvert's 'Co-operation is a form of organization wherein persons voluntarily associate together as human beings on a basis of equality for the promotion of the economic interests of themselves'.¹²⁹

In its broadest sense, co-operation may be defined simply as voluntary association in a joint undertaking for mutual benefit—admittedly a lower ideal than a joint effort directed at the common good, but a long step in advance of mere self-seeking. Co-operation is rooted in a common recognition by the participants of the desirability of improving their condition and general agreement among them as to how that improvement can best be effected.

A former Bombay Registrar, Shri V. S. Bhide, has said:—

Co-operation represents a happy mean between the forces of extreme individualism on the one hand and socialism and communism on the other. It stands for individual rights tempered by considerations of justice, equity and fair dealing as between man and man, and its one great aim is to prevent the exploitation of the weaker by the stronger party.¹³⁰

Co-operative societies differ, at least in theory, from agricultural banks and loan societies in that 'honesty and sense of moral obligation are substituted for material assets'.¹³¹

Dr L. P. Jacks has called co-operation 'the most difficult and beautiful art in the world'. Two things are indispensable to any art—vision and technique. As in all arts, the effective expression of co-operation depends even more upon vision than upon technique, important as are the forms of organisation and the operating

methods. From this standpoint Shri V. L. Mehta's definition is more satisfactory than any of those given above:—

Co-operative credit is only one aspect of a vast movement which promotes the voluntary association of individuals having common economic needs who combine towards the achievement of the common economic end they have in view and who bring into this combination a moral effort and a progressively developing realization of moral obligation. . .¹³²

Co-operation there has always been or there could have been little, if any, human progress, but for the beginnings of modern co-operation as a formal movement we have to go back only to the first half of the nineteenth century, when Robert Owen formulated its philosophy.¹³³ In England the outstanding development has been consumer co-operation, starting with the spectacularly successful venture launched in 1844 by a handful of weavers, the 'Equitable Pioneers of Rochdale', with their sound principles of one man, one vote, sale at market prices and division of profits among shareholders on the basis of the extent of their patronage.

Consumer co-operation has been important also in Sweden, in Holland and in numerous other countries. In the U.S.A., as in the pre-war Baltic countries and in Denmark, co-operative marketing has been a leading development. Denmark has been transformed by co-operation from a country with tenant farmers in the majority to one with over 97 per cent of its farmers land-owners.¹³⁴ Iceland is perhaps the most highly 'co-operatized' country with most of its business co-operatively organized.¹³⁵ Co-operative insurance societies have been popular in France and Belgium,¹³⁶ and co-operative land consolidation has long been important in Sweden.¹³⁷ In Hungary the co-operative banking movement has been the leading credit institution in the country.¹³⁸

Most significant for early Indian co-operative developments were the schemes for co-operative finance which

originated in Germany and Italy. The German pioneers, Herr Schulze, Mayor of Delitzsch, and F. W. Raiffeisen, Burgomaster of a group of villages around Neuwied, working independently, embodied their ideas in co-operative organizations at about the same time. Both began with individual effort to relieve distress in their respective districts, and both came to the conviction that lasting improvement must depend on the people themselves. In 1849 Schulze founded a Friendly Society with the object of relief in sickness and a shoemakers' association for raw material purchases. His loan society was formed in 1850 with ten members, all artisans, and remodelled two years later as a self-supporting institution with capital and shares. Raiffeisen started a co-operative society in 1848 to distribute potatoes and bread to the poor at Weyerbusch (Coblenz), and in 1849 a loan society for the help of small farmers. The members of the latter were rich philanthropists who sold cattle to farmers on easy terms. Not until 1862 did Raiffeisen found at Anhausen a co-operative credit society of which borrowing farmers themselves were members.¹³⁹ Raiffeisen's activities were chiefly for poor peasants; Schulze's for artisans and small tradesmen.¹⁴⁰ A parallel development was the Luzzati People's Banks of Italy, which had limited liability, whereas the German societies did not.¹⁴¹

Besides joint and unlimited liability, other features of the Raiffeisen societies, which served as models for the Indian rural credit societies, were a closely restricted area, gratuitous service on the managing committee, allocation of net profits to an indivisible reserve, limitation of loans to members and reliance on personal rather than real security.¹⁴²

As we shall see, the agricultural credit societies of India have departed from this pattern in some respects, but credit still dominates the Indian co-operative scene, though diversification of the co-operative effort is proceeding fairly rapidly.

CHAPTER III

THE CO-OPERATIVE MOVEMENT IN INDIA

EARLY STEPS TOWARDS CO-OPERATION

No consideration of the Co-operative Movement in India can lose sight of the Government leading-strings. India is not unique in having had the original impetus to co-operation come from the Government or from Government officials, or in having the Movement receive Government encouragement and even support, but there has been in India a degree of dependence upon official initiative, direction and control that is probably without parallel. As the late Sir Horace Plunkett put it in his evidence before the Royal Commission on Agriculture: 'It is not a spontaneous growth but a Government policy'.¹⁴³ He wrote also:—

The distinction between co-operation imposed by the Government and necessarily supervised, regulated, restricted and controlled, on the one hand, and co-operation promoted by voluntary initiative and sustained by the co-operative spirit, which insures the loyalty of the members, on the other hand, cannot be over-emphasised.¹⁴⁴

While the co-operative society as we find it in India is not native to the country, interdependence or co-operation is the very key-note of the Hindu family, 'joint in food, worship, and estate', and of the traditional village organization, under which, for example, cane cultivators frequently own one or two cane mills together which they take turns in driving with their bullocks.¹⁴⁵ An old Indian work, the *Arthasastra* of Kautiliya, provides:—

Whoever stays away from any kind of co-operative undertaking shall send his servants and bullocks to carry on the work, shall have a share in the expenditure but none in the profits.¹⁴⁶

Ancient India had craft guilds, with banking a feature

of their activities.¹⁴⁷ They are referred to in the *Vedas*,¹⁴⁸ as well as in *The Laws of Manu*.¹⁴⁶

Some of the types of unofficial indigenous co-operation found in the Punjab in modern times were described by Mr (now Sir) Malcolm Darling in his *Rusticus Loquitur*. There, as doubtless in many other sections of the country, two to ten peasants frequently join for a year to cultivate a given area in common, dividing the produce after each harvest in proportion to the labour and bullock power supplied by each. These yearly partnerships, called *lāna*, are often renewed year after year. Sometimes a number co-operate in the repair of roads or the herding of cattle; and, more often, a number of peasants have drinking-wells in common or employ a common watchman to protect their crops against monkeys.¹⁴⁹

The Madras Presidency, even before the Movement was officially launched, had organized co-operative undertakings in the form of the indigenous *Nidhis* or mutual loan associations not unlike the provident fund and friendly societies of Europe.¹⁵⁰ In spite of numerous failures due to fraud, ignorance, unsuitability of the law and absence of supervision, these achieved considerable success,¹⁵¹ and were imitated in the United Provinces, in the Punjab, and in Bengal, under semi-official auspices. In 1901 there were over 200 *Nidhis* with some 36,000 members and a subscribed capital of more than two crores of rupees. Their clients were drawn from a more highly educated and advanced class than the agricultural population,¹⁵¹ and they persisted even after co-operative societies were developed for the latter, but as mere financing bodies, not concerning themselves with the objects of loans or with their members' thrift or indebtedness. Among their characteristic features are the limitation of operations to members, insistence on punctual payment, under penalties, of a monthly instalment towards the share capital, and dissolution after a fixed term of years, with distribution of accumulated share capital and profits among the members.¹⁵²

A co-operative society was started in the Punjab as early as 1891 for controlling the common land of the village for the benefit of the co-sharers, and functioned until 1922, when the land was partitioned.¹⁵³ Another co-operative society, started in that Province in 1895, embraced twenty-two villages and hamlets. The fifty or sixty members each contributed Rs 40 to the undertaking; the President deposited Rs. 1,000 and obtained three loans of the same amount, one from the local money-lender and two from the Government.¹⁵⁴

Agricultural banks were introduced in Mysore in 1894, each 'to be an association of landholders on strictly co-operative principles, not for the purpose of earning any profit divisible among its members, but for the purpose of obtaining money by their own united credit and lending it according to the actual requirements of each member to the extent the others have confidence in him'.¹⁵⁵ Purposes of loans might be the ordinary annual requirements of cultivation, agricultural improvements, or debt liquidation. By 1898, 64 of these banks had been started in Mysore. That they did not thrive, the Committee on Co-operation in that State in 1923 ascribed retrospectively to too low interest rates, which over-stimulated borrowing, insufficient incentive to banks to raise local capital, inefficient management, and inadequate supervision.¹⁵⁶ A few village banks were started in the United Provinces under the ordinary company law, and in 1903 there were some beginnings of distributive co-operation in Calcutta.¹⁵⁶

The first official step towards financing the Indian agriculturist, however, was the scheme for establishing an agricultural bank, put forward in 1882 by Sir William Wedderburn and Mr Jusice N. G. Ranade.¹⁵⁰ While it did not receive official favour as a whole, its essentials were embodied in the Land Improvement and Agriculturists' Loans Acts, Act XIX of 1883 and Act XII of 1884, respectively, under which the agriculturist could borrow public money for productive purposes approved

by the Government, at 3 to 6½ per cent. The former Act permitted borrowing Government funds for such improvements as wells and terraces; the latter for short-term employment, as in the purchase of seeds and implements;¹⁵⁷ but all such loans have come to be restricted chiefly to cattle purchase or to land improvement,¹⁵⁸ except in emergencies such as flood or drought.¹⁵⁹

Under this *takavi* system each loan has to be secured by sureties or a charge on the land. The use of the money is supervised by subordinate revenue officials who insist on accurate accounts and prompt repayment of principal and interest. The ordinary practice is to require repayment of *takavi* loans after the next main harvest, or, at the latest, after two main harvests,¹⁶⁰ extensions being very rarely allowed.¹⁶¹

In Bombay Presidency it was ruled in 1921 that, in villages where co-operative societies were situated, advances under the Land Improvement Loans Act might be made only through them.¹⁶²

These provisions for loans to agriculturists not having met the situation, other plans were considered. In 1892 Mr (later Sir) F. Nicholson was assigned by the Government of Madras to report on the advisability of starting a system of land banks in that Province. His exhaustive report in two volumes recommended co-operative societies. It was reviewed by the Madras Government in 1899 and came to the attention of the Government of India the following year, as did Mr H. Duperne's *People's Banks for Northern India*, based on the successful experiments with village banks in the United Provinces. A committee meeting in Calcutta in December 1900 considered the introduction of co-operative credit societies, reaching the conclusion that societies on Raiffeisen lines might prove suitable.

Following two terrible famines, a Famine Commission, of which Sir F. Nicholson was a member, and which met in May 1901, pronounced the strengthening of the moral backbone of the agriculturist to be the chief means of

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preventing famines and recommended mutual credit associations.¹⁵⁰ The question was referred to a committee which sat at Simla in June and July 1901, and drafted a bill and model rules.¹⁵¹ Much further discussion followed before co-operative credit societies were given a legal basis and official endorsement.

THE LEGISLATIVE BASIS OF CO-OPERATION

THE new law passed in 1904 was modelled largely on the English Friendly Societies Act,¹⁵² but was quite simple and elastic, leaving a wide discretion to the Provincial Registrars to be appointed under it in building up their own co-operative structure.¹⁵³ It followed Nicholson's recommendation for the initiating of village banks, that the problems be solved as they came up.¹⁵⁴ The announced aim of the Government of India was 'to lay down the general outlines and to leave the details to be filled in gradually, on lines which the experience of failure or success and the natural development of the institutions may indicate as best suited to each part of the country'.¹⁵⁵

The chief provisions of the Co-operative Credit Societies Act, which became law on 25 March 1904, were as follows:—

1. That any ten persons living in the same village or town, or belonging to the same class or caste, might be registered as a Co-operative Society for the encouragement of thrift and self-help among the members.
2. The main objects of a society were to raise funds by deposits from members and loans from non-members, Government and other Co-operative Societies, and to distribute the money thus obtained in loans to members or, with the special permission of the Registrar, to other Co-operative Credit Societies.

3. The organization and control of Co-operative Credit Societies in each Province were put under the charge of a special Government officer called the Registrar of Co-operative Credit Societies.
4. The accounts of every society were to be audited by the Registrar or by a member of his staff free of charge.¹⁶⁷
5. Rural societies were to have four-fifths of their members agriculturists; urban, four-fifths non-agriculturists.¹⁶⁸
6. The liability of members of a rural society was to be unlimited, except with special sanction by the Local Government. Liability of urban society members might be either limited or unlimited.
7. No dividends were to be paid from the profits of a rural society, but the profits were to be carried at the end of the year to the reserve fund, although when this fund had grown beyond certain limits fixed under the by-laws, a bonus might be distributed to the members.
8. In urban societies no dividend was payable until one-quarter of the profits in a given year were carried to the reserve fund.¹⁶⁷
9. Loans could be made only to members, and usually only on personal or real but not ordinarily on chattel security,¹⁶⁹ although ornaments, the common form of savings of many peasants, might legally be accepted as security.¹⁷⁰
10. The interest of any one member in the society's share capital was strictly limited.¹⁶⁹
11. Societies formed under the Act were exempt from fees payable under the Stamp, Registration, and Income Tax Acts.

The local Governments for all the Presidencies and major Provinces soon appointed Registrars with full powers to organize, register and supervise societies.¹⁷¹

Conferences of Registrars held annually for some years brought certain defects in the Act of 1904 to the attention of the Government. That Act did away with the need to secure registration under the Indian Companies Act which, with its complicated procedure and detailed provisions, was unsuited to the co-operative societies,¹⁷² but it gave no legislative protection to societies for purposes other than credit, or to the central agencies, banks and unions, which were gradually coming into existence to finance and supervise the primary credit societies.

These deficiencies were remedied in the Co-operative Societies Act (II of 1912), the distinctive provisions of which may be summarized as follows:—

1. Instead of registration being limited to credit societies, any society may be registered 'which has as its object the promotion of the economic interests of its members in accordance with co-operative principles, or a society established with the object of facilitating the operations of such a society'.
2. Unless otherwise directed by the Local Government:—
 - (a) The liability of central societies shall be limited.
 - (b) The liability of rural credit societies shall be unlimited.
3. The requirement of an annual audit is retained, as are numerous other provisions of the Act of 1904.
4. Any registered society may, with the Registrar's sanction, after carrying one-fourth of the annual net profits to a reserve fund, contribute up to 10 per cent of the remaining net profits to a wide range of charitable purposes.
5. Local Governments are given considerable discretion in connexion with the making of rules for the working of societies under the Act, including conditions of membership, methods of

operation, procedure at general meetings, and provisions for arbitration between members and between members and the committee or officers of the society, such rules to have the same force in the respective Provinces as the Act itself.

6. 'Co-operative' may not be used as part of the title of any business concern not registered under the Act, unless it was already doing business under that name before the Act came into effect.
7. Shares or interest in co-operative societies are exempt from attachment.
8. Societies have a prior claim to enforce the recovery of certain dues.

From the first, the Local Governments were charged with the administration of this Act of 1912, as well as of that of 1904, through the Registrar and the assistants they appointed. The Act of 1912 applied at the time of Partition to all Provinces, with such local amendments as had been found desirable, except to the Provinces which had availed themselves of the authority conferred by the Montagu-Chelmsford Act of 1919 to pass their own Co-operative Societies Acts—Bombay in 1925, Madras in 1932, Bihar and Orissa in 1935, Coorg in 1937 and Bengal in 1940. Sind also passed its own Co-operative Societies Act.¹⁷³ While following the National Act of 1912 in most respects, the Bombay Act, which, as amended to date, may be taken as more or less typical of these, widened the scope of the Movement, substituting in its preamble for 'agriculturists, artisans and persons of limited means' as the intended beneficiaries of co-operation, 'agriculturists and other persons with common economic needs' and speaking of 'better living, better business, and better methods of production' as the aims of co-operation. The former change seems, at least legally, to open the door to advantage being taken of facilities provided in part at state expense by some whose economic status does not entitle them to special privileges at the taxpayers' cost. The Bombay Act classified co-

operative societies according to their main purpose, as 'resource', 'producers', 'consumers', 'housing' or 'general'. It also made definite provision for the arbitration of disputes, improved the procedure for liquidation and recovery, provided definite penalties for specified offences of societies, officers or members and raised the optional contribution to charity from 10 to 20 per cent of net profits, after the requirements for the reserve had been met.

The trend of the more recent legislation seems definitely in the direction of strengthening the power of the Registrar, i.e. the role of the State in the Co-operative Movement. Amendments to the Provincial Acts recommended by the Co-operative Planning Committee, however, besides adding to the liquidator's powers also include provision for primary societies' free choice between limited and unlimited liability, with the right of subsequent change, and the exemption of co-operative societies as far as possible from the provisions of Provincial Acts for the relief of indebtedness, the control of money-lenders, etc.¹⁷⁴

Most of the larger Indian States and some of the smaller adapted the co-operative legislation of British India to their special needs, beginning with Mysore, which, in its Co-operative Societies Regulation of 1905, initiated the formation of societies for purposes other than credit.¹⁷⁵ The formal launching of the Co-operative Movement in Hyderabad, Indore and Travancore dates from 1914; in Gwalior from 1918. Baroda, Bhopal, Cochin, Kashmir and a number of other States have their own Co-operative Societies Acts or Regulations, the data for eighteen Indian States being given independently and those for a few others grouped under 'Other States' in the Reserve Bank of India's annual *Statistical Statements Relating to the Co-operative Movement*. The population of the Provinces and States having co-operative societies was over 95 per cent of the total population of undivided India.

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TYPES OF CO-OPERATION IN INDIA

*Distribution Trends for Primary Societies**

The earliest launched of India's co-operative undertakings in this century, credit societies still dominate the picture for all Provinces and States together, agricultural credit societies far exceeding, both in number of societies and in membership, though not in working capital, all other types of co-operative organizations put together.

The Act of 1904 arranged for starting urban and rural banks simultaneously, but instructions were issued to the authorities to make the latter their first care.¹⁷⁶ For several years they gave them almost exclusive attention. Agricultural societies, including land-mortgage banks, still represented 86.1 per cent of all primary societies in 1945-6, the last year before Partition for which the statistics are available (Assam's data being for the preceding year). The small Hyderabad Administered Area had only non-agricultural societies. Otherwise, only in Assam among the Provinces and Cochin among the States were the agricultural societies outnumbered by the non-agricultural, though the latter represented more than one-fifth of all primary societies in Ajmer-Merwara, Bombay, Delhi, Madras, the Punjab and Sind among the Provinces in 1945-6; and in Baroda, Kashmir and Mysore among Indian States. Bhopal had no non-agricultural societies.

The statistics for membership and working capital of primary societies, however, give a different picture of the relative importance of non-agricultural societies in the Movement. Whereas, excluding the small number of land-mortgage banks, there were in all 146,958 agricultural as compared with 23,883 non-agricultural societies in 1945-6, there were nearly 3½ million members of the latter, as compared with just over 5½ million agricultural

* See Table I.

society members. More striking still—the working capital of non-agricultural societies was Rs. 5,263·9 lakhs, whereas that of agricultural societies was only Rs. 3,301·3 lakhs. Thus the non-agricultural societies, which represented only 13·9 per cent of all primary societies in 1945-6, included 38·4 per cent of primary societies' members and accounted for 61·1 per cent of their working capital.

Important also as a gauge of the diversification of the co-operative effort is the division between credit and non-credit societies, whether serving the rural or the urban population. As early as 1914-15, when less than 1 per cent of the agricultural societies were other than credit societies, 13·5 per cent of non-agricultural primary societies were non-credit societies. In 1929-30 only 9 per cent of the country's 93,625 primary societies (excluding Burma, which shortly thereafter became a separate country) were non-credit societies.

The variation is naturally wide between individual Provinces and States, but, while exceptions might be cited, the generalization seems warranted that in some where the Co-operative Movement has been weakest a conservative tendency has been apparent which has made them cling to a single line of attack for a many-faceted problem, inadequate as credit alone had been found as a master-key to prosperity.

The signs point to a rapid spread of co-operation in the urban areas, which is excellent, in so far as the advance is on sound lines. It was, for instance, announced in July 1948 that the number of co-operative societies in the city of Bombay and its suburbs had more than doubled in the last year. The ease of propaganda, organization, supervision and inspection is naturally so much greater in the urban areas than in the widely scattered villages that a warning note perhaps needs to be sounded, lest the Co-operative Movement in spreading its benefits to urban areas neglect in any measure the field for which it was first introduced in India.

The ancient Tamil sage Tiruvalluvar called the tiller of the soil 'the axle-pin of the revolving world',¹⁷⁷ and Thomas Jefferson in the early nineteenth century called the small land-owners 'the most precious portion of the State'. In India particularly, with its nearly 700,000 villages in which the vast majority of the people dwell, the urban co-operative societies, important though they also are, must never be favoured at the expense of the illiterate and needy millions of the rural areas.

Happily a growing demand for the registration of more rural societies is mentioned in Bombay itself in the Registrar's report for 1946-7. He ascribes it chiefly to the growing popularity of co-operation, partly to the greater need felt for crop finance by cultivators whose debts had been adjusted under the Agricultural Debtors' Relief Act, the benefits of which were extended to the whole Province in January 1947.¹⁷⁸

The credit side of the Movement will be of great importance, whatever may be the expansion in other directions. Mr. F. W. Wace in 1939 expressed the conviction that 'if the credit movement were to fail it would have a disastrous—indeed probably fatal effect on nearly all other lines of development'.¹⁷⁹

Agricultural Credit Societies

The objects of primary agricultural credit societies as defined in their by-laws naturally differ, but all include the borrowing of funds from members or others to be utilized for loans to members, and generally also the promotion of thrift, at least as a pious hope. Where the credit society's by-laws are so sweeping as to provide for its acting as agent for the joint sale of its members' produce and the joint purchase of their agricultural and domestic requirements; for the hiring of implements, machinery or animals to members; the dissemination of information upon improved farming practices; the

encouragement of subsidiary industries and/or the reform of social practices, it brings the society availing itself of the by-laws' sanction in any of these directions into the multi-purpose class, in fact if not in name.

The promotion of thrift, as important to the societies' success as to their members' well-being, has been too much neglected, but the need for it is being increasingly recognized. The Madras Committee recommended that school-children be taught thrift, perhaps through small branches in their schools of central banks or well-run urban banks.¹⁸⁰ The weakness of the emphasis on thrift in the past must be accounted a major weakness of the Indian Co-operative Movement. The item of members' deposits in the working capital of primary societies, however, doubtless bears witness not only to the lack of emphasis on thrift but also to their members' poverty, and perhaps also, in some cases, to their lack of confidence in their society.

Thrift is being stressed more today. The Bombay Registrar, for example, indicates in his report for 1946-7 that no more rural 'credit' societies are being registered, but only 'thrift and credit' ones. So far, however, the growth of savings and shares has been incommensurate with the rise in agricultural prices.

Assuming that members' vigilance over the conduct of their society would be proportionate to their individual stake in its success, the Madras Committee on Co-operation (1940) urged the cultivation of depositor members. As long ago as 1939 the Berar Co-operative Enquiry Committee believed it 'advisable to make it clear that co-operation is not restricted in its scope to persons of small means'. The proposal of the Hyderabad Registrar in his report for 1945 that Sahukars be brought into the co-operative fold¹⁸¹ has much to commend it, as far as those who have retired as money-lenders are concerned. Their profits have been cut down and the restrictions on their activities have proved burdensome; they

have funds to invest; and their business acumen would be of value to their simpler fellow-members. It is, however, easy to see the reason for the specific exclusion from co-operative societies in Cochin of persons engaged in professional money-lending.^{181a} The hold of the money-lender on his clients is such that undue influence in the society might well be apprehended from their membership.

Current deposits would of course be difficult for village credit societies to handle, but the Madras Committee suggested savings deposits for the better run (A and B class) societies.¹⁸² The interest on small savings would be too small to offer much of an inducement, but it suggested issuing easily negotiable savings certificates for specified amounts or, alternatively, issuing home savings boxes, all to be opened simultaneously to promote the co-operative spirit; also offering education in budgeting and linking the savings with particular objectives. How trifling from the commercial banker's point of view much of this business would be, may be judged from the suggestion that 2-anna and 4-anna savings certificates of different colours would be suitable in some societies! But as an educational effort this may be well worth while.

The Agricultural Finance Sub-committee (1945) recommended exploration of the possibilities of a specific savings programme for anticipated ceremonial expenditure on a reasonable scale, though attempts should be made to create public opinion against extravagant outlay.¹⁸³

The daily collection of a handful of rice from each member is a thrift promotion method reported to have been very successful in Bengal in the days before rationing of food-grains.¹⁸⁴

Compulsory savings are required from Baroda primary agricultural credit society members; at the end of 1944-5 these totalled Rs 556,000. The gradually won popularity of the Mysore Small Savings Scheme¹⁸⁵

shows the possibilities of an intensive drive of propaganda and publicity.

Shri K. Subba Rao, Chief Officer of the Reserve Bank's Agricultural Credit Department, holds that the societies should encourage their members to go on adding to their shareholdings every year, as long as they continue to be members of the society. Ten-year-old Delhi societies were restarting the collection of shares in 1945-6.¹⁸⁶ The aim suggested for new as well as existing societies, in Diwan Bahadur K. D. Mudaliar's report on co-operation in Orissa in 1938, that every member be induced to have at least as much as his current needs in a normal year and leave it with the society to borrow when need arises, repaying the loan at harvest¹⁸⁷ is admirable but hardly realistic for the rank and file of farmers. An alternative suggestion is the assigning to share capital in each member's name of an agreed percentage of the year's profits.

A Provident Fund scheme such as that in Baroda, under which members are allowed to deposit a maximum of Rs 10, the society contributing 50 per cent of the amount of the deposit,¹⁸⁸ may be effective in promoting thrift but is obviously suitable only for societies of sound financial standing.

Desirable, moreover, as is the inculcation of the habit of thrift, fairness to the small agriculturist and the small city worker demands facing certain facts. In the first place, primary co-operative societies are far from offering in all cases a gilt-edged investment opportunity. The mortality among them has sometimes been high and when a society comes to grief, members' savings must naturally receive consideration only after those of non-members and the society's other obligations. If diversification of investments is safer for the large investor, it seems hardly fair to encourage the small one to put all his eggs in one basket.

Also, beneficial as saving is in normal times and important as it is to check inflation, as long as prices

continue to rise the value of money locked up in unproductive savings will continue to fall. A saved rupee will buy less tomorrow than it would have bought to-day. There must be saving, but all should save, as a patriotic duty. It is not fair to put such risk as there may be especially upon the shoulders of a group, and that neither the most prosperous nor the best informed. To encourage primary society members in investments which may involve a disproportionate share of sacrifice is to incur an unenviable responsibility.

The minimum initial membership for a primary society is ten, and the Registrar may dissolve any which fall below that number. The general average membership in primary agricultural societies was 41 in 1912-13, 34 in 1929-30 and 37 in 1945-6. In five Provinces and ten States in the last-named year the average was 30 or less. The Central Provinces and Berar, where the Co-operative Movement had been passing through a crisis, had an average membership of only 15. Among the Indian States, Patiala and Kotah averaged respectively, 12 and 8 members to a society.

The Saraiya (Co-operative Planning) Committee considered the small size of the primary unit a limitation to progress. It recommended 50 as a minimum and such an area as would permit adequate business and yet efficient supervision and effective control.¹⁸⁹ Both too large and too small membership are disadvantageous. Where a village society has 600 members, as has been the case in Travancore,¹⁹⁰ or, as in one Orissa society a few years ago, as many as sixteen villages are included in a single society, the accurate knowledge of each other's circumstances and character is sacrificed, as well as the check afforded by fellow-members' scrutiny of the uses to which loans are put. Sind offers the opposite extreme of societies confined each to a small hamlet dominated in most cases by the village head-man, which may mean that sight is lost of the democratic spirit of the Movement and that *benami*

loans (applied for on behalf of someone else) are common.¹⁹¹

The Fifteenth Conference of Registrars maintained that membership in the primary society should be open to all persons residing in its area.¹⁹² It is good to guard against an exclusive spirit, but there must be some protection against notoriously improvident or untrustworthy individuals and wilful defaulters who may have had—in the gruesome phrase of an investigator of the Movement in one Province—to be ‘dismembered’. The members of a society with unlimited liability must have a voice in the admission of their fellow-members. It matters very much whom you are roped with for scaling the co-operative peaks.

A rule under the Madras Co-operative Society Act prohibits the admission or continuance in membership of persons convicted of certain offences.¹⁹³ Orissa has had the provision that if one-fourth of the total number on the rolls of a society do not object to the admission of any prospective member he may be admitted at a general meeting.

Members in a primary credit society must share a geographical, social or occupational status. The Mac-lagan Committee stated in 1915 that mixed societies, where tried, had not been a success and that the deliberate mixing of occupations was not to be recommended.¹⁹⁴ Separate societies for special groups have since come to be generally recognized as undesirable in general, though as the Mysore Committee on Co-operation remarked in 1936, some of the communal societies have worked satisfactorily. The instance comes to mind of the Sulemani Co-operative Society at Baroda, confined to members of that community, and its fine achievement in social reconstruction and in giving a new outlook on life to the women of the community particularly. Mr Azim Tyabji, one of the enthusiastic supporters of that co-operative effort, defends its communal character not only on the strength of its

success but also on the principle that it is by fostering each unit that the larger unity can be achieved.

The Madras Committee on Co-operation deprecated the formation of societies on a sectional or communal basis, as being opposed to the basic principles of co-operation. 'It is the common economic interests rather than community or caste that should be the bond.'¹⁹⁵ Or, as the Travancore Committee finely put it in stating that no communal societies should be registered in future but that all should be open to all communities, it is 'also one of the aims of a co-operative society to build up true citizenship with the help of a community of economic interests'.¹⁹⁶

The same objection applies to the formation of separate societies for ex-service personnel. The sooner the ex-soldiers find their niche in the common economic structure, the better for them and for all.

It may be mentioned that communal feeling within a society of mixed membership has been a handicap in the Punjab,¹⁹⁷ but that seems a difficulty easier to overcome than the permanent divisions formed by communal societies.

The attitude towards prospective members ought to be cautious and critical, but the tendency, marked in its incipency by the Maclagan Committee in 1915,¹⁹⁴ to make societies close preserves after they are functioning successfully constitutes failure to pass what has been called the ultimate test of genuine co-operation.¹⁹⁸

Publicity within the society is necessary so that members may know what they are liable for. It would be highly desirable from the standpoint of the general membership of an unlimited liability society to have restrictions on the alienation of property by individual members, but the Act of 1912 carried none, except the restrictions on the transfer of a member's share or interest in the capital of the society itself.

Instances are not unknown where women are serving as officers in co-operative societies of mixed member-

ship, but they have been rare, though in Travancore as long ago as 1928 women represented 11 per cent of the total membership of co-operative societies.¹⁹⁹ The place of women in the Movement generally as also the work on co-operative lines among the depressed and aboriginal classes will be considered along with non-credit societies, though credit is of course a factor in connexion with both groups.

Existing debts, of course, ought to be fully revealed before members are admitted to unlimited liability societies, and the society should be notified of each instance of a member's resorting to the *bania* for a loan. The latter, however, can hardly be forbidden so long as a society is unable to satisfy the credit requirements of all members. Where the society can meet all members' legitimate credit needs, the Madras Committee on Co-operation recommended, outside borrowing should be prevented on pain of expulsion.²⁰⁰

Obviously no one should be permitted to join more than one society with unlimited liability; doing so would make his backing meaningless in both. The question of divided loyalties has, however, arisen in connexion with membership in both a credit society on a cash basis and a grain bank which, though often operating under limited liability, is equally a credit society. Efforts were being made in Orissa in 1946 to obviate the over-financing of members by amalgamation of the two types of societies.²⁰¹

The MacLagan Committee expressed the opinion that unlimited liability had been unreservedly accepted by the people. 'It constitutes an important factor in the confidence reposed in societies both by the central institutions inside the Movement and by the Joint-Stock Banks outside it.'

The Bengal Banking Enquiry Committee claimed in 1930 that joint and unlimited liability had been found absolutely essential for agricultural credit and that, 'as a matter of fact, instances in which one member has

been made to pay more than his own dues to the society are so very rare as to be utterly negligible'.²⁰² True, perhaps, for Bengal, but not for all India.

The degree of danger from unlimited liability actually depends largely upon how well the society is conducted. There is normally little danger in a well-managed society, but there is grave risk if the management is slack or reckless, as many a rueful former member of a liquidated society has been made to realize. The real liability, of course, is in inverse ratio to the size of the society's reserve, the steady building up of which is required by all the Acts.

In practice, in a well-conducted society, the members restrict quite narrowly their actual liability, not only by careful selection of members but also by fixing at the members' meeting once or twice a year the maximum sum (exceeded by the committee only at its members' own legal responsibility) which the society may borrow from outsiders, as well as the maximum credit to each member until the next meeting, based on a careful consideration of his assets.

Co-operative opinion is now sharply divided on the question of limited or unlimited liability for agricultural credit societies. Those who favour limited liability cite the hardship which the enforcement of unlimited liability imposes upon members and claim that unlimited liability is unsuited to the many places where members from more than one village are necessary to the economical working of a society, and, moreover, that it frightens off prospective members of means who would be assets.

Those who favour the continuance of unlimited liability claim that limited liability, because of its higher risk to creditors, will mean that credit will be confined to those who can provide immovable or movable security, thus cutting off the very large number whose assets are their honesty and their potential earning capacity,²⁰³ and also that it would remove a necessary check upon

extravagant borrowing and unproductive use of the loan.²⁰⁴

The Gadgil (Agricultural Finance) Sub-committee recommended unlimited liability for credit societies as a rule, while allowing an exception if limited liability was proved to attract valuable elements to the Movement in any region, provided that a substantial part of the funds required could be raised through share capital. The liability in such cases would be limited to the value of the shares or a multiple of it.²⁰⁵

Shri S. M. Bharucha reported in 1937 that in Hyderabad unlimited liability had not made the members, almost universally illiterate and, he claimed, lacking strength of character, watch each other's transactions jealously, nor had it induced them to see that payments were punctually made.²⁰⁶

The Saraiya Committee felt that 'in most Provinces unlimited liability has not been very helpful to the progress of co-operative credit. Responsible people were kept out of the Movement by it and also it was largely illusory as long as there was no bar on the alienation of property by members'.²⁰⁷

While it is a pleasant illusion of some high in co-operative circles that unlimited liability has been seldom enforced, this is true only of certain Provinces. Shri S. M. Ikram, I.C.S., was able to say in 1944 that in Bombay, so far as he knew, unlimited liability had not been enforced in any case since 1934, 'and that he knew of only three cases of its earlier enforcement'.²⁰⁸ I would invite the attention of optimists on this point to the record, for example, in Berar,²⁰⁹ in Delhi,²¹⁰ in Orissa,²¹¹ in Madras,²¹² and in the Ambala District of the Punjab,²¹³ where the intensity of coercive measures on a wide scale at certain periods has involved great hardship and has brought the Movement into odium. Though these wholesale executions of decrees were in many cases against individual debtors, the sufferers were by no means all wilful defaulters.

The Berar Co-operative Enquiry Committee (1939), mentioning enforcement of joint liability as 'one of the main causes of the present unpopularity of the Movement', and admitting 'that the necessity for the enforcement of this joint liability has arisen mainly on account of the unprecedented fall in the values of land and not through any negligence or dishonesty on the part of the other members', said that Rs 229,705 had already been realized in Berar by the enforcement of joint liability against 148 societies and 361 members. It remarked that it was likely that Rs 576,705 more would be recovered by its enforcement against 226 other societies and 591 members.

It is all very well to say that, after all, the sufferings which members of co-operative societies have encountered from the enforcement of unlimited liability are not, strictly speaking, the result of the enforcement so much as of bad management of their societies, for which each is partly responsible, and of over-borrowing. These reflections, however, are not probably of much consolation to the villager, inadequately educated in co-operative principles and ignorant of business methods, who has lost his land.

Too often the enthusiasm of Honorary Organizers or Departmental workers has led to the slurring over in propaganda of the risks involved. In other cases, the encouragement of over-borrowing, by the financial institutions seeking a profitable outlet for their surplus funds, has contributed to a primary society's coming to grief. If unlimited liability is to be retained it is imperative that measures to correct or to obviate these evils shall be taken.

In any case, however essential unlimited liability may be held for credit societies of small cultivators, it seems quite indefensible to retain it when a credit society takes on other functions involving risk, such as marketing (except, perhaps, strictly on an agency basis), purchasing, etc., becoming in effect a multi-purpose society

though keeping its credit classification. Shri S. M. Ikram said at the Eighteenth Bombay Provincial Co-operative Conference in November 1947 that if a credit society was working well on an unlimited liability basis and promised well as a multi-purpose society it was registered as such, with unlimited liability.

In practice the trend, though slow, is definitely towards limited liability.* In several Provinces, while unlimited liability is being retained for old societies, many new ones are being registered with limited liability. In the United Provinces, for example, 'village banks' are being registered, differing little in practical working from the old unlimited liability village society.²¹⁴ The percentage of agricultural credit societies there on a limited liability basis was higher than in any other Province in 1945-6—56.5 per cent. In the Central Provinces and Berar, 13.3 per cent of agricultural credit societies had limited liability; in Bengal, only 14 out of 36,093 societies. The percentages in Bombay and Madras, where the Movement today is perhaps the strongest, were but 4.6 and 0.4, respectively. All such societies in the Punjab had unlimited liability. Nine Indian States in that year had unlimited societies only, and these not among the strongest in co-operative showing. Hyderabad had limited liability in more than half such societies.

The Reserve Bank of India has proposed two distinct types of agencies, one an agricultural Bank with limited liability, covering several villages and lending to the more prosperous cultivators on ordinary business lines against property or other real security, and the other a real Raiffeisen society with unlimited liability and a limited area, working as a unit for the economic and social rehabilitation of a poor, indebted and backward population.²¹⁵ It recognized that the former type would involve the abandonment of the assumptions of co-operative finance. It would have the further disadvantage of favouring and perpetuating economic class

*See Table III.

distinctions and offering the more prosperous greater freedom from risk. Making credit readily available to them outside the village society would, moreover, deprive the latter of their possible membership and hence lower its credit standing and increase the risk to its members. Already Bombay at least has moved to provide for such limited liability societies for the wealthier agriculturists.

It may be recommended alternatively that the possibilities be explored of retaining unlimited liability and a small area for the village credit society, coupled with all necessary safeguards—adequate co-operative education and supervision and perhaps also the Rural Credit Stabilisation Fund proposed by the Agricultural Credit Organisation Committee in Bombay,²¹⁶ to cushion it against disaster from causes beyond its control—and having side by side with it a multi-purpose society covering a wider area and organized on a limited liability basis, for all purposes except credit.

Membership in the multi-purpose society could be required for all borrowing members of the credit society, and others could be encouraged to join it. All members of the latter requiring credit and representing a fair credit risk could be recommended to join the credit society, which would be the only source of co-operative credit. The success reported for the linking up of crop-loan societies in Bengal with marketing societies, by which each crop-loan society member was obliged to join the multi-purpose society and deposit his produce with it for joint sale,²¹⁷ holds out hope for the success of this arrangement, with the elimination for non-borrowing members of the compulsory feature.

How well such an insulating of the credit society against risks from other types of activity can work was demonstrated by the Lalitadripur Co-operative Society in Mysore, described by the Reserve Bank in 1937 in its Bulletin No. 2, *Co-operative Village Banks*. The local grain bank, with a membership of 215, representing all the families in the village, was liable only for credit but

had affiliated with it a building branch, a milk supply society and adult education classes and was also doing village improvement work. It had assumed all the work of a village *panchayat*, arranging for the cleaning and lighting of roads, settling disputes, providing medical assistance, conducting propaganda against the drink evil and in favour of curtailing ceremonial expenditure, and maintaining a library. The members were making separate contributions for the different activities.²¹⁸

The societies with the two types of liability could be linked up as closely as might be found desirable, perhaps with interlocking directorates, but the necessarily speculative nature of certain of the non-credit activities would not risk the members' all. This proposal would obviate also the objections raised to giving special facilities to those who need help less, while avoiding the abandonment of co-operative principles by a society enrolled under its banner. Membership in the multi-purpose society with limited liability should be open to everyone who could take one low-priced share.

The recommended linking up of credit and marketing societies, however, demands the efficient operation of both. Unless the co-operative society, with the advantage over private traders of volume sales, is able to give its members as much on the average for their crops, including a bonus for member patronage, as they could get outside, not only is a great strain put on members' loyalty but the question arises of why co-operative marketing at all. Conversely, a credit society on the verge of liquidation will have little to promise in the way of future credit as a reward for the patronage of the sales society members.

The Act of 1912 gives priority to the claims of registered societies against their members or past members over those of all their other creditors, except the state and the landlord, subject to certain reservations exempting shares or interest in the society from attachment. The liability of a past member for the debts of a

registered society as they existed at the time he ceased to be a member continues for two years from the date he left the society, and the liability of his estate for the society's debts as they existed at the time of his decease for one year after that date. It has been very reasonably suggested that in the case of a society under liquidation at the time of a member's death, or of one which goes into liquidation within a year thereafter, the liability of his estate for the society's debts as they existed at the time of his death should continue until the society's affairs are wound up.

When a member dies, his share or interest may be transferred, or its value paid, to the nominee under the society's rules or his heir or legal representative, but the heir of the member of a society with unlimited liability need not succeed, unless he so wishes, to the deceased member's interest and corresponding responsibilities, but may demand payment.

The chief source of capital for the Movement as a whole is loans and deposits from non-members and other sources, this item representing, in 1945-6, 30 per cent of the total working capital. Owned capital (share capital and reserve and other funds) was a close second, with 29.0 per cent, less than 1 per cent being represented by Government loans and deposits. Loans from other societies, including central and provincial banks, which represented the chief source of capital in 1929-30, accounted in 1945-6 for only 23.6 per cent of the total working capital, members' deposits and loans from land mortgage banks and societies making up the balance.

In 1945-6 agricultural societies derived only Rs 1,088.4 lakhs from central and provincial banks, as compared with Rs 2,121.7 lakhs in 1929-30. Actually the total working capital of agricultural societies was slightly less in the later year, Rs 3,301.3 lakhs as compared with Rs 3,493.1 lakhs, a tell-tale indication of the shift in emphasis in the Co-operative Movement, for the total

working capital for the Movement as a whole increased in the same period by more than 83 per cent, from less than Rs 90 crores to over Rs 164 crores.

Theoretically, dependence on the central financing institutions is recognized as less desirable than the raising of funds locally, at least as a permanent thing. The late Mr. Henry W. Wolff held that a society in debt to a central bank should be regarded as a society 'in hospital'. He believed the joint-stock banks would perform the central bank's functions more inexorably and that the societies would benefit by the greater strictness. The Mysore Committee on Co-operation in the twenties approved in theory the practice general among primary societies in the State of resorting to the central banks only when they could not raise funds locally. It found, however, that in some cases the development of societies had been stunted by the practice and that a few had been practically starved.

Share capital is an important source of working capital. Limited liability societies always had it and it has for years been general throughout the country for unlimited liability societies as well, though Indore societies still have none.²²⁰ Shares are normally of small value, commonly Rs 10 to Rs 50 each, but it has been pointed out that in a country as poor as India the demand for even the smallest instalment may have excluded many whom it has been most desired to help.²²¹ In the effort to preserve democratic control of primary societies, the amount of share capital which an individual may hold is prescribed in the rules, the maxima laid down in the Act of 1912 being one-fifth of the share capital of the society, or Rs 1,000. Shares have been payable in half-yearly or annual instalments, sometimes withdrawable decennially with payment of dividends after the expiration of the deposit period, subject to a maximum rate fixed under the rules or by-laws.²²²

Share capital cannot be considered part of a society's reserve, since it represents actually but an advance pay-

ment by the members against their unlimited liability. In addition to encouraging thrift in the purchase of shares on instalments, however, it shares the advantage of the reserve fund of increasing a society's financial stability and strength, and, by reducing its dependence upon outside capital, should make possible lower interest rates to members than otherwise could obtain.

More important, from the viewpoint of the members' security, is an adequate reserve. This is built up partly by overcharging borrowers. The Co-operative Societies Act requires 25 per cent of the net profits to be carried to the reserve fund, which is further augmented by entrance fees, interest on share capital and reserve fund,²²³ and the value of shares forfeited to the society.²²⁴

For the country as a whole the reserve fund was Rs 18·7 and Rs 12·6 per member of agricultural and non-agricultural societies, respectively, in 1929-30. The corresponding figures in 1945-6 were Rs 19·2 and Rs 20·3. The accumulated reserve of all agricultural societies in 1945-6 represented 25 per cent of their total working capital, as compared with 16·1 per cent in 1929-30, a very creditable showing. An indivisible reserve is a fundamental feature of the Raiffeisen system, to serve as a buffer between the members and the rigours of possible enforcement of unlimited liability.

The reserve funds of primary societies are differently invested in the different Provinces. In Bombay, Delhi, the North-West Frontier Province, the Punjab and Sind the primary societies are permitted to utilize their reserve funds as an addition to their working capital, a practice formerly quite general with the exception of the Central Provinces and Madras. In the Central Provinces, the reserve funds are invested in Government securities. In Madras, primary societies may utilize in their business only the amount of the reserve fund in excess of 20 per cent of their working capital, the re-

mainder being invested in central banks. In Assam all the primary societies' reserve funds are invested in central banks and in Bengal in the Provincial co-operative bank.²²⁵ The investment of a society's reserve fund in another co-operative society cannot be regarded as altogether sound practice, particularly when, as has often recently been the case, the central institutions have been embarrassed rather by surplus capital than by a deficit. Where a primary society has its reserve locked up in its financing institution, the shaky position of the latter may, at the best, mean inability to pay interest on the primary society's investment, as happened in North Orissa in the thirties,²²⁶ and at the worst may involve even a well-managed primary society in its own crash. The MacLagan Committee was opposed to this practice, not only as making the reserve not readily available to primary societies but also as enabling shareholders in the central banks to swell their dividends at the primary societies' expense.²²⁷

The Committee on Co-operation in Mysore (1936), while approving the utilization, by societies with unlimited liability, of most if not all of their reserve funds in their ordinary business, stipulated that, where it was so used, interest at the same rate as on deposits for one year should be added to the reserve.²²⁸

Considering owned capital as comprising only share capital and reserve, its proportion to total resources is increasing for agricultural societies. The advantages of a large owned capital are obvious, but, in spite of the MacLagan Committee's finding the encouragement of its growth most advisable, experience has shown that a large percentage of owned capital, while improving a society's credit position, is no guarantee against mismanagement. It must be remembered also that a high percentage of owned capital means little if the working capital is inadequate, and that a fall in the ratio of owned to total working capital may reflect only an increase in the society's business. The owned capital may

actually have increased and yet the ratio may have declined.

Instances, moreover, have not been unknown where a large surplus has led members to agitate for the society's dissolution and the division of the capital. From the standpoint of stability in working, therefore, if not from that of encouraging thrift, the provision for the distribution of share capital at the end of a fixed period of years seems justifiable, provided the total working capital is sufficient, without the amount to be distributed, to meet all legitimate credit requirements of all members—a condition still very far from general.

The Reserve Bank has stressed the value of village societies' feeling responsible for raising funds locally. In Hyderabad, it mentioned in 1937, 300 primary societies were working on their own capital. The Zamindari Co-operative Banks in Sind were in 1943-4, with one exception, meeting their members' needs without looking to an outside agency for financial help.²²⁹ In the Punjab in 1945-6 many societies were reported to have adequate funds of their own and to attract good deposits from members and non-members. Of the 19,496 societies affiliated to central banks there, only about 40 per cent were indebted to them.²³⁰ But these isolated statements cannot be taken as representative of the country as a whole.

Non-member deposits were assiduously cultivated in the beginning, and efforts were made to convince the money-lending classes of the desirability of the rural societies as a field for safe investment, without the trouble of collection.²³¹ Non-member deposits still represent a considerable proportion of working capital, 30 per cent in 1945-6; they are not, however, always felt to be an unmixed good. In Bombay Presidency, where the Movement is particularly strong on the credit side, non-member deposits with primary societies have sometimes been discouraged on the ground that supervision is facilitated by such societies' getting directly

from the central bank all the finance they require in addition to their owned capital.²³² Non-member depositors are naturally likely to be less patient than members if a society gets into arrears, and less concerned for the good name of the Movement.

The Mysore Co-operative Committee (1936) recommended that primary societies encourage local deposits from people with local interests only, but felt that members' deposits should be given preference, even by slightly higher rates of interest. For the country as a whole, however, members' deposits were less than half those of non-members, Rs 2,220·6 lakhs as compared with Rs 4,918·7 lakhs in 1945-6.

The encouragement of members' deposits is universally favoured, though in North Orissa, during the crisis in the late thirties, a limit of Rs 200 was fixed for a member's fixed and thrift deposits.²³³ Various devices have been adopted for the purpose, such as substituting obligatory deposits for instalment shares²³⁴ or requiring compulsory deposits for a period of years, representing a percentage of the loans advanced, a practice frowned upon by the Bombay Banking Enquiry Committee in 1930 as discouraging voluntary deposits.²³⁵

In general, the figures for deposits give an important clue to the soundness of the Movement in different parts of the country as reflected in public confidence. Many of those in rural areas with funds to invest are or have been money-lenders, and it would be hard to find a cannier lot than they are. Thus in Berar non-members' deposits fell from Rs 109,229 in 1941-2 to Rs 58,345 in 1944-5, and even members' deposits from Rs 40,699 to Rs 16,769.²³⁶ The improvement in Bihar's agricultural credit societies was reflected in the steady rise from 1942 in both member and non-member deposits, the former from Rs 275,316 to Rs 617,708 in 1945.

Deposits or loans of limited liability societies have been limited under the rules to from 8 to 12 times their

owned capital; in some cases the maximum borrowing power of a society with unlimited liability may be fixed at a definite fraction of the net assets of all members, varying usually between one-fourth and one-eighth.

The agriculturist and the small industrialist must have credit, but the credit policy of the primary societies is of the utmost importance, that the credit given may assist and not ruin those whom it is desired to help. The principles that should govern them in their credit policy were admirably put by F. Nicholson in 1895 in his *Report Regarding the Possibility of Introducing Land and Agricultural Banks into the Madras Presidency*. He laid it down that the credit which the agriculturist got

must indeed be cheap, and facile in that it shall be ever at hand, but it must be credit which shall only be so obtainable that the act and effort of obtaining it shall educate, discipline and guide the borrower; it should be granted only to those who have learned to think, to plan, to save; the method of providing it must teach the lessons of self- and mutual help, and suggest the extension of those lessons to matters outside of mere credit; it must be safe not merely in eliminating the dangers of usury but in being controlled, heedful and productive. It is emphatically not the outpouring of cheap capital that is required, not the mere grant of cheap facile credit to classes unprepared for the boon; what is wanted is the promotion of facilities for saving, the encouragement of banking deposits, the inculcation of the true object, uses and limits of credit; in other words, the development of the essential national virtues of thrift, foresight and self-help, through institutions organized for those ends.

The Reserve Bank did well to give wide publicity to these words of wisdom in its second bulletin, issued in 1937. The pity is that they were not all these years kept before the minds of those responsible for the Co-operative Movement, on its credit side particularly.

The Cochin Registrar's recent policy has been to discourage the cultivators persistently from heavy borrowing. He seems more deeply impressed than most with

the fact that prosperity and depression follow the law of alternation or periodicity, which indeed is found throughout nature. He declares:—

I still feel that if the ryots do not take advantage of the rise in prices of agricultural commodities and liquidate their debts before the onset of full depression they will not see the light of day in years to come.²³⁷

Certain general restrictions on loans are laid down in all the Acts, as that loans may not be made to non-members without the Registrar's special permission, which, under the National Act, can be given only for a loan to another society. The Maclagan Committee would have had inter-lending between primary societies ruled out altogether.²³⁸

The idea underlying co-operative credit is, of course, that a group combining to furnish a collective guarantee can obtain funds at lower interest rates than they could individually command. A society's assets have been called 'the funded honesty of its members'.²³⁹ Where, as in the Punjab, the law has prevented the sale of agriculturists' land in execution by the banks, personal security is relied upon almost exclusively, both for agricultural and non-agricultural societies.²⁴⁰ Loans are commonly on the security of two co-members,²⁴¹ which represents a step away from strict co-operative practice.

In the Central Provinces, where most co-operative society members are occupancy tenants, the Tenancy Act was amended in 1940-41 by making occupancy lands mortgageable and saleable for co-operative dues, which is reported to have given a fillip to the Movement there, making a large portion of debts formerly bad, good.^{241a}

The National Act required the Registrar's sanction for lending money on the security of movable property and provided also that the Local Government might prohibit or restrict the societies' lending money on the mortgage of immovable property. Loans on gold and silver ornaments are now common, especially in the

practice of urban banks, rural credit societies naturally being often ill-equipped either for correct evaluation or for safe custody of ornaments pledged. The custom had grown up by 1930 in Bombay, Madras and elsewhere of making short-term advances on agricultural produce kept in the possession of the societies or by some central organization on their behalf.²⁴² In some Provinces standing crops have been accepted as security. Mortgages on standing crops were reported some years ago to have been found very successful among backward groups in Bombay Presidency.²⁴³

In practice, mortgage security is very common. So long as the tangible security was considered secondary, it was not deemed that mortgage or chattel security contravened the fundamental co-operative principle that credit must be personal. The MacLagan Committee stated that the main object of taking a formal mortgage was to prevent the alienation of the property, and recommended that, as a rule, mortgage be without possession.²⁴⁴ The Burma Banking Enquiry Committee referred in 1929-30 with disapproval to the neglect in that former Province 'largely through mistaken preference for mortgage security, of the co-operative principle of lending only as the character and capacity of the borrowers and their mutual contact with and influence with and over each other justify'.²⁴⁵

Mortgage security has been increasingly favoured since and sight seems in some cases to have been lost of its being strictly supplementary security; and co-operative principles have suffered accordingly. In Coorg in 1946-7, for example, out of Rs 11·7 lakhs of agricultural credit societies' loans outstanding, only Rs 2·4 lakhs was covered by personal and the entire balance by mortgage securities.²⁴⁶ In Mysore, as long ago as 1929-30, all loans for large amounts or long periods were on the security of immovable property, though smaller loans might be on the personal security of one or two members. A negligible amount was even then loaned

on the security of shares or of the borrower's character alone.²⁴⁷ In Cochin, on the other hand, about nine-tenths of loans were at the same time on the security of the borrower alone or on the joint security of one or more other members.²⁴⁸ Mortgage securities have been deprecated, not only as contravening co-operative principles but also on the ground that they tended to make recoveries worse, encouraging a dilatory attitude.²⁴⁹ It seems regrettable that an amendment of 1 April 1948 to the Bombay Co-operative Societies Act of 1925 makes mortgage security a condition of loans to credit society members.

The Agricultural Finance Sub-committee frowned on mortgage security, chiefly because, where it was generally insisted upon for advances, the benefits of co-operation were likely to be denied to classes having no alienable rights in land, 'even if they are otherwise industrious and thrifty and capable of making a profitable use of credit'.²⁵⁰ It held earning capacity and surplus income to be the proper criteria for credit worthiness in a co-operative society.²⁵¹ With mortgage security, of course, the system of credit becomes individualistic; the co-operative principle of collective and joint responsibility is set aside; and with it the stimulus to watchfulness. The society then becomes in effect not very different from a joint-stock bank without many of the latter's conveniences.

The Gadgil Committee further recommended the Madras system of 'controlled credit' for general adoption with suitable local modifications.²⁵² Co-operative credit, it has been said, 'really means controlled credit'.²⁵³ But 'controlled credit' has come to mean specifically the advance of loans in instalments as needed on the pledge of produce, recovery being made from the crop proceeds through a close link-up with a co-operative marketing society where the credit society itself does not assume the marketing function, and only the balance being given to the borrower.²⁵⁴

The Madras Committee on Co-operation, while approving the trying out of this system in certain areas, cited the criticism that the centralized administration and the amount of supervision involved not only was expensive but also would reduce societies to the position of agents of the central bank :

It is true that the ordinary member of a village co-operative is ignorant and illiterate, but the point is whether it is wise to keep men in leading-strings. It may mean less risk, but it may bar the way to the real progress of rural co-operative credit.²⁵⁵

Whatever may be said for the scheme in the present context, it must be recognized as but a half-way house to full co-operative practice as education spreads.

The dangers of facile credit can hardly be over-stated, but under-financing is almost as bad, in that it drives the necessitous borrower almost inevitably to the *mahajan*. Or, if a loan is inadequate for the purpose intended, say the construction of a well, the borrower may give up the project and the amount lent may easily be dissipated in unproductive expenditures. Instalment payments where possible offer one solution.²⁵⁶

The Provincial Banking Enquiry Committee in the United Provinces remarked in 1930 :—

It is to be regretted that though a quarter of a century has elapsed since the introduction of co-operation, no serious attempt has yet been made to ascertain the normal requirements of a cultivator for maintenance and expenses of cultivation.²⁵⁷

It recommended early inquiries in different localities to ascertain the financial needs of different classes of cultivators, and how those needs were being met at present. For that purpose, it proposed inducing selected literate persons to keep detailed accounts of income and expenditures for a given period.²⁵⁷

The Bengal Banking Enquiry Committee in 1930 estimated the average credit requirement of an agricultural family in that Province as Rs 160 a year on short-

term or intermediate loans.²⁵⁸ If this is even approximately correct and a safe basis for generalization, the average loan per member of agricultural credit societies is entirely inadequate. It was only Rs 26·5 per agricultural society member in 1945-6 for the country as a whole, compared with Rs 46·2 in 1912-13 and Rs 38·6 in 1929-30. This reduction does not necessarily mean that loans are inadequate, because many members do not borrow, some because they do not have to, thanks to the higher prices of agricultural produce, relief from the debt adjustment legislation, and the availability of land-mortgage credit for their long-term needs; and others because their individual credit standing is too low.²⁵⁹

A more significant figure, therefore, would be the average loan per member borrowing, which is only sporadically available in the Registrars' reports. In the Punjab in 1938 this average was Rs 96.²⁵⁹ In the North-West Frontier Province in 1945-6 it was Rs 109 per borrowing member, though only Rs 19 per agricultural credit society member.²⁶⁰ A maximum of Rs 150 per member has been proposed for the first two years after the registration of a society; Rs 300 thereafter. In Bombay, the Government in 1948 sanctioned raising the maxima for individual short-term and intermediate loans from Rs 200 and Rs 400, respectively, to Rs 300 and Rs 500, as recommended by the Provincial Agricultural Credit Organisation Committee.²⁶¹

Experience has proved the necessity for maximum limits for individual loans. Some village society members in Orissa had been advanced loans up to Rs 5,000 or more, far too big for repayment from income.²⁶² The maximum limits are properly indicated in the by-laws, and can be exceeded only with the Registrar's special sanction. An additional safeguard is the 'normal credit' system,²⁶³ recommended by the Maclagan and several later Committees, as also by the Reserve Bank.²⁶⁴ Under this, the credit limit of each member

is fixed in advance of the season, which not only guards against the lending of excessive amounts but also facilitates getting the loan in time. Members then can draw upon this as necessary, paying interest only from the time they actually do so.

Ideally, the society arranges the necessary cash credit with its central institution, paying interest only when the money is withdrawn.²⁶⁵ The Agricultural Finance Sub-committee would restrict this privilege of cash credit arrangements with the financing institution to societies with sound management. Under this plan, each agricultural primary society maintains a register of assets and liabilities of each member, which is kept by the central bank and consulted in connexion with loan applications.²⁶⁶

A caution is sounded by the Mysore Committee on Co-operation in connexion with the fixing of maximum normal credits for the chairman and members of the managing committee of primary societies—that these should be especially scrutinized by the inspection and auditing staffs and reduced if too high.²⁶⁷

The Agricultural Finance Sub-committee proposed that the Madras system of 'continuity mortgage bonds' be looked into and adopted wherever conditions permitted.²⁶⁸ This system, followed in some parts of Madras, of allowing members cash credit on the mortgage of landed property up to 50 per cent of its value so that they can draw on it as and when they require, seems of very questionable wisdom. It seems, moreover, to go against that Committee's own principle, which is in harmony with the co-operative ideal, that a member's credit-worthiness should be assessed on the basis of his repaying capacity²⁶⁹ rather than on that of the assets the sacrifice of which might save the society from loss but ruin him. Experience has proved the average cultivator's need of the restraints with which the co-operative society surrounds him. Until education in general and particularly in co-operative principles has advanc-

ed much farther, better the harassment of some delay and difficulty than putting such a strain on individual prudence!

The Committee has in mind the fact that unless the society can furnish money on short notice for current agricultural needs the cultivator must go to the money-lender, but its other proposals, that societies in good standing might be allowed to keep some small cash in hand against emergencies, and that specified office bearers might be granted authority to sanction urgently needed loans not in excess of a specified amount, should go far to meet the difficulty.

In 1940-1, loans to big borrowers represented 77·2 per cent of all loans in Berar; this percentage had happily been reduced by 1944-5 to 26·1 per cent²⁶⁸ though the Central Provinces and Berar still had 293 borrowers owing Rs 1,000 or more. How far this is from the admittedly limited purpose for which the Co-operative Movement was originally launched in India may be judged from a Resolution, April 1904, in which the Government stated that the societies contemplated by the Act would be 'small and simple credit societies for small and simple folk with small and simple needs and requiring small sums only'.²⁶⁹

The analysis of loans by agricultural credit societies in Coorg in 1946-7 showed 5,447 of Rs 50 and below; 1,121 from Rs 51 to Rs 100; and 923 in excess of Rs 100. Only 37 loans were in excess of Rs 500 though there were 8 for more than Rs 1,000, these representing, however, less than 2 per cent of the total.²³⁷

The average loan for non-agricultural society members in 1945-6 was Rs 66 for the country as a whole, more than twice the agricultural society average. The average loan per urban society member in 1912-13 was Rs 71·3 and in 1929-30, Rs 99·8.

The Bihar and Orissa Banking Enquiry Committee (1929-30) believed the finance given for agricultural primary society members to be not much more than three-

fourths of their actual requirements.²⁷⁰ The United Provinces Banking Enquiry Committee attributed the failure of members of societies to get enough to satisfy all their needs not to the lack of money so much as to the lack of security and the fact that bad debts had been so numerous that banks and societies did not dare advance more money.²⁷¹

The general severe contraction of loans to agriculturists during the thirties must have worked a hardship in very many cases, while it may not have been altogether a bad thing in one way, convincing many, as it must have done, of the possibility of survival on less credit than they had considered necessary. The severity of the contraction in rural societies' loans is indicated by the Mysore Committee on Co-operation, which reported a reduction from Rs 20·86 lakhs lent in 1929-30 to Rs 8·63 lakhs during 1934-5, though during the same period, it may be noted, urban credit society loans rose from Rs 58·08 lakhs to Rs 81·66 lakhs.

So great is the importance of maintaining and increasing the fertility of the Indian soil in the interest of greater food production, that every effort should be made to ensure the agriculturist sufficient credit for the expenses of cultivation; and that loans required for maintenance should be available goes without saying. (It may be mentioned parenthetically that the estimate of the Advisory Board of the Imperial Council of Agricultural Research that 480 million tons of farmyard manure each year was denied to the soil, largely because of its use as fuel, underlines the importance of such schemes as that in the United Provinces for the establishing of plantations for the supply of fuel and small timber.²⁷²)

The Madras Registrar reported an unprecedented demand for credit in 1946-7, tentatively attributed to rising costs.²⁷³

An important factor in the credit policy is the purpose for which loans are given. Credit for consumption, if granted without due safeguards, by general admission

spells danger to lender or borrower or both. The Committee on Co-operation in India stressed the importance to the security of a co-operative credit society of the productive use of each loan.²⁷⁴ But the situation in regard to legitimate purposes of loans is a little different in India, with its rigid social customs, from that in most other countries. The Acts are wisely silent on the purposes of loans, for in India the distinction has had to be, not between productive and non-productive so much as between necessary and unnecessary purposes. The combating of traditional requirements of extravagance on such occasions as a wedding is one of the objects of some co-operative societies, notably of those specifically designed for the promotion of 'Better Living', which will be considered separately.

The Gadgil Committee recommended that the primary credit society try to finance all the short-term needs of its members, and, subject to certain conditions, their intermediate credit needs as well.²⁰⁵

The earlier advocacy of 'full finance' for co-operative society members, lest they be driven to the money-lenders, was comprehensible so long as there was no provision for debt redemption and no land mortgage banks were available for long-term credit. Many of the vicissitudes which have overtaken the Movement, however, have been due in considerable part to the tying up of funds in long-term loans. The practice still continues, at least for small amounts. As lately as 1941-2, Madras village societies were issuing over Rs 40 lakhs for debt redemption, or 12.9 per cent of all loans; the figure for non-agricultural societies being 33.49 per cent.²⁷⁵ In Cochin also, excellent as is the general working of the Movement there, 40 per cent of the loans of agricultural societies in 1946-7 were for debt redemption. The practice may be necessary, but it is not sound.

The explanation doubtless lies in both cases in that offered by Shri P. H. Krishna Rao, Commissioner for

Economic Development and Planning in Mysore, in a speech reported in *Mysindia* of 11 November 1944—that the land mortgage banks were not reaching the small debtors, those who owed less than Rs 300/-, 80 per cent of Mysore debtors falling in that class, though only 30 per cent of total village debts. Comprehensive economic surveys of 258 typical villages in that State in 1941 and in 1945 had shown a very slight decrease in the number of debtors, from 21,831 to 21,412 families out of the 38,941 and 41,621 families included in the respective surveys, but an increase in total indebtedness from Rs 56 to Rs 98 lakhs. No wonder the Mysore Registrar in his 1945-6 report approved rural societies' redeeming their members' debts below Rs 200!²⁷⁶

In the same Resolution of 1904, quoted above, the Government had warned that

it is exceedingly inadvisable that these societies should be allowed to lock up their limited capital in a form in which it is not readily available; their most useful form of business will probably be small loans for short periods with prompt recoveries.²⁸²

This highly commendable lead was not followed for three or more decades with any of the parallel provisions necessary to make that practice feasible. Unless something is done about the old debts, the co-operative societies have felt practically compelled to do what they can. Even a small debt to the money-lender grows alarmingly.

Loans for cattle purchase, generally classed as intermediate loans, are a very important item in several parts of India; in Kashmir, for example, in 1945-6 they accounted for 55.2 per cent of all loans,²⁷⁷ and in the North-West Frontier Province for 35 per cent;²⁸⁰ in the Central Provinces and Berar, in the quadrennium ending with 1944-5, they represented 52.1 per cent of the total.

The period of a loan is determined mainly by the possibility of repayment out of the income derived from its use, or the resulting savings,²⁷⁸ at least in theory.

Short-term loans are properly those for current cultivation expenses, and repayment in a normal season should be expected out of the proceeds of the next harvest. But, agriculture in India being peculiarly at the mercy of weather variation, elasticity in the resources of any institution which undertakes to finance the cultivators is indispensable. The MacLagan Committee laid down the rule that where the average cycle consists of one good, one bad, and two indifferent years the society should require payment after the first good harvest, as money-lenders always have done,²⁷⁹ but that normally two years should be the maximum period for non-productive loans.²⁸⁰

It is for the society to bear in mind the inevitable recurrence of good and bad years, to be economical in the issue of loans in times of plenty, and to be still more economical in times of stress, but at the same time to continue granting loans harvest after harvest until good times return, *ignoring if necessary the pre-conceived limits based on valuations of the member's property and earnings,** and finally to recover gradually but vigilantly all sums that a prudent money-lender would recover, without allowing the borrower to misuse on unnecessary objects the savings which he should refund to the society.²⁸¹

The italicized portion seems to me dangerous counsel, however unavoidable in some cases this procedure may be. It raises the question whether co-operative societies are the solution for the hazards of such precarious tracts.†

Two or three annual instalments usually are allowed for the repayment of advances taken for the purchase of bullocks, carts and implements, or domestic or ceremonial expenditures; and the repayment of loans to liquidate previous debt, to improve land, or to purchase and install agricultural machinery must be spread over a longer period, often five to ten years—hence their unsuitability for the village credit society.

The restriction of loans to three years, except those

*Italics mine. †See Chapter VI, Conditions of Success.

of land mortgage banks, as in a Madras rule framed in 1941-2, with the provision that with the Registrar's permission a loan may be extended to five years,¹⁹³ should help to check long-term lending, if its purpose is not defeated by renewals. In Bombay, while the committee of a society can sanction extensions for one year, only by a vote of the general meeting with the previous approval of the financing agency can longer extensions be granted.

That it is not always possible to repay even short-term loans out of the sale proceeds of the crop for which the loan is taken is brought out by an experiment in Madras with ground-nut societies, financed by the central banks on the understanding that sales would be through the marketing society. Even loyal members could not fully repay the advance in the first year out of the sales of that year's harvest and the next.²⁸² Diwan Bahadur K. D. Mudaliar suggests that 'a fairly good proportion of the unproductive debt which is now hanging over the heads of members of co-operative societies generally was contracted in this way'.²⁸²

The Madras Committee wisely recommended the adjustment of recoveries to the cyclical trend of production. A uniform method of recovery all over even that one Province would not be suitable, since, in part of it, crops normally failed in one year out of three; in others, in two years out of three.²⁸³ The Travancore Committee recommended a maximum of eighteen months for short-term loans, but making medium loans repayable in five to six years, to reduce the size of the instalments.²⁸⁴ The Mysore Committee's calling loans for five to ten years 'Intermediate' seems too lenient.²⁸⁵ A loan of more than five or six years at most should be classed as a long-term loan. An upper limit of three years was recommended for intermediate loans by the Thirteenth Conference of Registrars (1939). The Reserve Bank would have agricultural credit societies confine their business generally to short-term loans and grant inter-

mediate loans (necessary for cattle purchase, etc.) only to a moderate extent.²⁶⁴

It is not surprising that when the nemesis of long-term lending overtook the Movement, as in North Orissa where the bulk of the loans outstanding had been given for more than five years, the tendency since then should be to restrict loans to cultivation purposes.²⁶⁶ In Orissa in 1945-6, 91 per cent of agricultural societies' loans were for productive purposes, just over 8 per cent for debt redemption and only 0.7 per cent for other non-productive, however necessary, purposes.²⁶⁷ In the Rawalpindi Division of the Punjab, where recoveries were the worst in the Province, the general policy in 1939-44 was strictly to control lending to societies in unsatisfactory standing to productive purposes only.²⁶⁸ In that Province in 1939, the financial condition of many societies made it impossible for them to obtain finance from the central banks or to lend to their members. In others, it was the indebtedness and general economic condition of individuals that put them beyond the reach of fresh finance from their societies. In both such cases, the general rule was to afford them fresh finance up to usually 75 per cent of the cash repayments they were able to make,²⁶⁹ a counsel of mercy which certain other Provinces would have done well to follow.

In Bengal about 13,000 crop loan societies were set up around 1940, and also many in Berar, mainly 'to fill the gap created by the freezing of the pre-existing credit machinery'. While the former, which provided a system of controlled credit, had succeeded, difficulties had been encountered in Berar, where several factors, including alleged lack of the co-operative spirit, comparatively poor crops and the low prices then prevailing had handicapped the experiment.²⁷¹

One difficulty which only alertness and close mutual supervision can overcome before the general moral tone is raised is that the ostensible purpose for which loans are sought is not always the real purpose. Not only is

there the *benami* loan, which an obliging friend takes in his own name for a member whose limit of credit with the society has been reached, but also there is frequent concealment of the object of a loan sought for the borrower's own use. Fortunately *benami* loans are not sufficiently common to constitute a real menace. The fact that it is often the members of the managing committee who are the offenders in securing this type of loan through other members of the society is most regrettable.²⁸⁹

Though interest rates on loans to members of agricultural societies vary not only from Province to Province but sometimes from District to District, they are in general distinctly lower than twenty years ago, though the Saraiya Committee found the common rate of 9 per cent or more too high.²⁹⁰ The Punjab rates on agricultural society loans to members in 1945-6 were from $1\frac{1}{2}$ per cent (the lowest in the country) to $12\frac{1}{2}$. The United Provinces had 9 to 12 per cent as its usual rates; the Central Provinces and Berar, 7 per cent; Madras, $7\frac{1}{2}$ per cent. Cochin and Mysore societies loaned to members at 6 and 7 per cent, respectively; Travancore and Bhopal at $7\frac{1}{2}$ and Baroda at from 3 to $9\frac{3}{8}$ per cent. Bengal societies' maximum rates were over 15 per cent; while in Bihar the rates on loans to members of non-agricultural societies in 1945-6 were from 5 to 25 per cent.

Any interest at all is objectionable to some very orthodox Muslims, who interpret so strictly the Koran's injunctions against usury that they will have nothing to do with a co-operative bank because it charges interest on loans.²⁹¹ The principle is reported to be weakening gradually, although the unclaimed interest on Muslims' deposits in the Post Office Savings Bank is said to have amounted, some thirty years ago at least, to lakhs of rupees.²⁹² And this in spite of the Pathans, some of the most notorious usurers in India, professing that faith. Where prejudice against interest and even against divi-

dends on shares does exist among co-operative society members, it has the advantage of facilitating the building up of a society's owned capital.

It was startlingly proposed in 1947 by Dr A. I. Qureshi that primary credit societies should make interest-free loans to needy farmers for non-productive purposes, such as ceremonials. He argued that without accumulating interest there was greater likelihood that the loan would be repaid.²⁹³ Even granting this possibility as valid in so far as mounting interest discourages repayment effort, his confidence that fear of incurring the bad opinion of fellow-members with the power to cut off future interest-free credit would prevent defaulting seems unduly optimistic in the light of the overdues record in India, even with the check that interest imposes. If Dr Qureshi as Deputy Economic Adviser to Pakistan, an avowedly Muslim state, is able to try out his theory there, the results will be watched with interest.

Theoretically, the aim of co-operative societies is to give their members better service for less than they would have to pay outside. The societies' rates have been, in general, well below those of the *mahajans* operating in the same territory, but the stand was taken early that moderately high rates were advisable, not only to discourage reckless borrowing and borrowing for re-lending by members, but also to provide for bad and doubtful debts, to cover management expenses, and to build up the society's surplus the more rapidly. The MacLagan Committee pointed out that a society's profits depended mainly on the difference between its borrowing and its lending rates and held that, until the reserve fund had reached a substantial figure, it was a mistake to reduce unnecessarily the rates at which money was lent to members.²³⁸

It is obviously undesirable to reduce the rates so far that the society works at a loss. The difficulty, however, goes behind the primary societies to their financing institutions. In Bengal in 1945-6 the central banks' lending

rate was $9\frac{3}{8}$ per cent, just under 4 per cent in excess of their borrowing rate. In Madras it was only $4\frac{1}{2}$ per cent, but in the United Provinces it was 9 per cent; in the Punjab it was $3\frac{1}{2}$ to $9\frac{3}{8}$ per cent, and in Assam the previous year the rate for some loans was 11 per cent.

The Gadgil Committee in 1945 set limits of $6\frac{1}{4}$ and 4 per cent for current and development finance, respectively, to primary society members,²⁹⁵ which are impossible without the co-operation of the central banks. Those in Bombay were advised to reduce their lending rates to primary societies from the beginning of year 1947-8 to 4 per cent, thus allowing the primary societies a margin of $2\frac{1}{4}$ per cent between their borrowing rate and the $6\frac{1}{4}$ per cent lending maximum recommended. Some of the central banks are reported to have demurred pending assurance of Government assistance in meeting any deficit involved.²⁹⁴

The danger in reducing rates too far below the current market rates, against which the MacLagan Committee warned,²⁹⁵ is not only that the society's finances will be unsound but also that members will be tempted to discharge first their obligations to the money-lender with his higher rates, while the society's overdues pile up.²⁹⁶ Unless, moreover, a credit society's lending rate is sufficiently higher than its borrowing rate to make a little profit, it is difficult to see how bad debts in excess of the society's reserve can ever be paid off. In spite of all that has been said, however, against too low interest rates, I am convinced that, given proper control of credit, they are less objectionable than too high ones. And the rates which members generally have to pay are still too high.

The Central Banking Enquiry Committee emphasized in 1931 that 'one of the main requisites of agricultural credit is that it should not be too costly'.²⁹⁷ Shri Vaikunth L. Mehta put it well, that the rate charged should be the lowest possible consistent with safety and allowing for management expenses and bad-debt insurance.²⁷⁸

The Agricultural Finance Sub-committee maintained that where the co-operative societies' lending rates were high due to the small size of the unit and the high costs of administration, the Government should subsidize them to bring the lending rate within the recommended limits.²⁵²

A slight rate differential in favour of those making punctual repayments, as in the North-West Frontier Province's rehabilitation measures,²⁹⁸ seems an excellent idea.

It is worth noting that the interest charges of grain *golas* are sometimes far above those of credit societies on a money basis. Both in Gwalior and in Bhopal, where a few years ago interest of 25 per cent was being taken by such grain banks, this was excused as causing no hardship!²⁹⁹ This exorbitant rate was reported 'found reasonable by 'borrowers because they borrow when prices usually are high and repay at harvest when the prices are lower'.³⁰⁰ Small as their operations are, the grain *golas* in Bihar and Orissa in 1929-30 were showing a profit of about 13 per cent on their working capital, as compared with that of ordinary unlimited liability societies, which was less than 2 per cent.³⁰¹

The Act of 1912 provides that a registered society may invest or deposit its funds—other than those immediately required in its business—in the Government Savings Bank, in certain specified securities, in the shares or on the security of any other registered society, with any bank approved by the Registrar or in any other way the rules permit. The Maclagan Committee objected, for obvious reasons, to primary societies' investing in the shares of any society with unlimited liability, but numerous societies have been members of other primary societies. In general the surpluses of primary societies have been concentrated in the central banks which finance them,²⁴¹ though the Maclagan Committee favoured primary societies' using their surplus assets in loans to members, after due provision for fluid resources.³⁰²

The management cost of agricultural credit societies naturally varies widely with the Province and among individual societies, depending partly on the lines of activity taken up. Separate statistics are not available for agricultural credit societies and rural societies of other types, but the all-India average for 1945-6 was Rs 64·6 per agricultural society, as compared with Rs 102·7 per non-agricultural society. The average cost per member gives a truer picture, due to the difference in size of the two types of societies; it was Re 1·7 per agricultural society against Rs 7·0 per non-agricultural. The cost of management of agricultural societies represented 2·3 per cent of their working capital, the very figure of which the Bombay Registrar complained in connexion with a certain District in 1929-30, in which 105 out of 244 societies were working at a loss. The all-India average in that year was only 1·1 per cent of working capital for agricultural and 1·5 per cent for non-agricultural. The higher management costs in connexion with the expansion into new fields may account for the great increase in the last two decades. Still the percentage seems high. Naturally, however, as the size and scope of the undertakings have increased, the employment of competent workers is of great importance, and these are sometimes not to be had without proportionately high salaries. Of course gratuitous service by members or honorary workers convinced of the value of co-operation is the sovereign specific for high management costs, but this can be counted upon only to a limited extent.

The scarcity of literate agriculturists with any knowledge of account-keeping constitutes a real problem in some villages. Not infrequently in such cases the village accountant or village schoolmaster is pressed into service as secretary. Where no suitable person is available for the amount a single society usually can afford to pay, neighbouring societies sometimes have been grouped together with a well-paid full-time secretary.²³¹ Theoretically in the interest of efficiency and economy, the

group-secretary plan is found to have decided drawbacks in practice. The Maclagan Committee frowned on group secretaries except as a temporary expedient, as giving the secretary too much power, and recommended that the secretary be kept, as far as possible, to clerical work, and that he be a local man.³⁰²

In Gwalior, for example, ten or fifteen societies are served by a single secretary, who keeps the accounts, does other clerical work and conducts meetings.³⁰³ It is common practice elsewhere for such secretaries, often employed by the central bank or by a supervising union, to keep the accounts of a number of primary societies. The Reserve Bank blames such group secretaries, doing everything for a village society, as probably more responsible than any other factor for the members' lack of understanding of co-operative principles. That this view is not unshared by co-operative officials is indicated by the North-West Frontier Province Registrar's mention, in his report for 1945-6, that that Province was 'free from the curse of circle secretaries'.³⁰⁴

The Cochin Co-operative Societies Act was amended in 1945-6 to give the Registrar the right to insist on a full-time secretary for a society with a working capital above certain limits.

The remedy for the lack of competent local secretaries is obviously education and in many, but not enough, Provinces classes for secretaries as well as for members of the managing committees are a regular feature of co-operative effort. Over 5,000 members in the Central Provinces and Berar were trained in accounts between 1941-2 and 1944-5. How sketchy the training is sometimes may be judged from the report from Bengal in 1944 where the training of secretaries for new Union or Town Food Committee Co-operative Multi-purpose Societies in elementary co-operative principles and in accounting was planned to be imparted in seven days! The educational effort generally will be considered in connexion with the work of the Provincial

co-operative institutes, by which it is often undertaken.

Only the secretary of a primary society is paid, as a rule, though not even he always receives remuneration for writing the society's accounts. The secretary is doing responsible work. He gives of his time and it is only just that he be fairly remunerated, taking into account the society's financial standing, as well as his own competence. An incompetent secretary may cost less but is a very poor investment. The secretary's insecurity of tenure has been recognized as a handicap. The Supervision Committee, Bombay (1933), recommended a five-year term for the secretary of a rural society, with the proviso that for neglect or misconduct he might be dismissed earlier with the approval of the District Board of the Supervising Union.³⁰⁵

The secretary keeps the accounts according to rules framed by the local Government. The minimum requirement for the accounts of a credit society are described as a cash book, a ledger account for each member, a register showing when repayment of loans is due, a register of deposits and a minute book. In some Provinces the secretary must keep also a share transfer register; an interest account; an expense account; a bank account; a receipt book with forms in duplicate; a limited liability register showing the indebtedness of every member to the society, whether on account of loans he has taken direct or on account of those for which he stands surety; and, in the case of unlimited liability societies, a statement showing the assets and liabilities of each member on the date of his admission, as well as on the last day of each co-operative year. The law requires the publication of a balance sheet twice a year. In addition, a statement of capital assets and liabilities must be kept conspicuously posted and every member and creditor is entitled to a copy.

Probity has proved at least as important in the choice of a secretary as his skill in accountancy, important as that is. The combining of the offices of treasurer and

secretary in a single person is particularly open to objection. So is the practice which has sometimes been followed of basing the secretary's remuneration on loans granted, which of course offers a direct invitation to the encouragement of injudicious borrowing and the manipulation of accounts, the recording of extensions as fresh loans, etc. A sounder method would seem to be to base the secretary's compensation partly on the society's audit classification, with a premium beyond the agreed minimum as the society is promoted from grade to grade in its efficiency rating, or kept in the higher classification once that is attained.

The societies registered under the Act of 1912 are bodies corporate.³⁰⁶ The ultimate authority vests in the whole body of members in general meeting. At this meeting each member of a society with unlimited liability has a single vote, while a limited liability society member has as many votes as the by-laws prescribe,³⁰⁷ though return to the primary co-operative principle of one man, one vote, has been advocated. The annual general meeting is held at the end of the co-operative year. At this, accounts are submitted, the balance sheet is passed and the managing committee, chairman and secretary are elected. In some Provinces the general meeting fixes the borrowing limit of individual members, sets the maximum amount the committee may borrow, dismisses members for misconduct or serious default, and settles the rates of interest for loans and deposits for the ensuing year.²³¹

While a managing committee is not specifically required by the Act of 1912, its existence is assumed.³⁰⁷ The committee normally consists of five to nine members. The chairman is generally one of the leading people in the village. The usual disqualifications for committee membership are:—

1. Being under twenty-one years of age.
2. Holding office or a place of profit under the society or having relatives who do so.

3. Holding less than a specified number of shares or having been a member less than a specified time.
4. Carrying on any business similar to that of the society, i.e. being a money-lender.³⁰⁶

Sometimes also, as in Cochin, a defaulting member is disqualified for the managing committee,¹⁸¹ which is as it should be.

Subject to any restrictions or regulations laid down by the society or its by-laws, the committee exercises all the powers of the society except those reserved for a general meeting. It cannot delegate its powers unless authorized in the general meeting to do so. Its duties consist in observing the Acts, rules and by-laws; maintaining true accounts of money received and expended; keeping accounts of the society's assets and liabilities; facilitating the inspection of books by those authorized to see them; preparing and presenting to the general meeting an annual profit and loss statement; watching that loans are applied to the purpose for which they were approved; maintaining an up-to-date register of members.³⁰⁶ The committee alone can receive deposits, arrange for outside loans, grant loans to members, and take action in the case of defaulting members.²³¹ The committee superintends the secretary, who carries on the actual daily work.

The vesting of final authority in a general meeting of the members is only nominal in many cases. Due partly, no doubt, to the members' illiteracy, they are frequently uninformed on the society's affairs and, what is worse, uninterested in them. The MacLagan Committee recommended frequent general meetings,³⁰⁸ but even the annual meetings have often not been well attended and it has been suggested seriously that members be attracted to them by various side features such as socials and exhibitions.³⁰⁹ The members' apathy encourages interference by the central bank, or even makes it necessary, besides

giving an undue amount of power to the office-bearers, which has not infrequently been abused by favouritism in making loans or even, more rarely, by criminal practices.

The Indian *ryot* is said to be 'proverbially honest and straightforward in his dealings except when years of famine and hardship make him at times crafty and recalcitrant,'³¹⁰ but the Burma Registrar claimed in 1931 that the dishonesty of union and society officers had been a potent factor in undermining the co-operative credit system in Burma. In the United Provinces in 1944-5 there were 84 cases of embezzlement, involving Rs 20,057,³¹¹ though not all these involved rural credit societies. In Bombay in 1946-7, 60 prosecutions were launched, with 35 pending from the previous year. In Madras at the beginning of 1946-7 there were 27 criminal prosecutions pending against office-bearers and employees of societies, and 31 more were instituted during the year.³¹² The temptations and the opportunities for committing fraud are often great, and when the thousands of credit societies in these Provinces and elsewhere are considered, this showing is numerically not very large. The problem of dealing with such cases, however, is a real one. If prosecution is promptly launched, it has been pointed out, the whole amount involved may be irrecoverable ; if, as the Travancore Committee found, no steps are taken in many cases to bring the culprits to book, the effect on others is demoralizing.³¹³

Mismanagement is a far more frequent cause, however, of societies' shipwreck ; the intelligence, conscientiousness and energy of the managing committee has very much to do with a society's prosperity.

The MacLagan Committee pronounced re-election to the managing committee permissible, but stated that the ordinary period for which a committee is elected should not exceed one year.³⁰² The Mysore Co-operative Committee headed by the late Sir Lalubhai Samaldas thought it undesirable to keep the same management year after

year because it prevented early detection of mistakes and also failed to train a large number in management.³¹⁴

Valid as these objections are, in many cases the number of qualified candidates for the managing committee is very small, and the personal factor has sometimes proved a very potent item in the success of a society. Where the committee is working well and impartially, there would seem to be no object in a complete turnover. The Cochin amendment requiring the retirement of at least 25 per cent of the old members of committees every year offers a middle course.¹⁸¹

Managing committee members are nominally responsible for any action in contravention of the by-laws. The committee offends probably more often by negligence than by intent, but in practice many societies, even though financially sound, are badly managed. The supervision expected of the committee members over the employment of loans is often slighted, though in some Provinces the committee has the power to recall a loan granted for a specific purpose and misapplied.

A remedy for the unsatisfactory functioning of managing committees where it has seemed to threaten the very existence of their societies has been found in the authority given to the Registrar in a number of Provinces to supersede such a committee and to have the society run by his nominee until restored to normal working, or, if found irredeemable, liquidated. Supersession is reported to have proved a very effective remedy in Madras and elsewhere, helping considerably the revival and development of societies.³¹⁵ The power, if used with caution, is yet fairly freely invoked in some Provinces. In Bombay the managing committees of 79 societies were under supersession at the beginning of 1946-7 and 60 at the end of that year. Voluntary supersession of the managing committee by the vote of the membership and the appointment of an agent *pro tem.* to bring the society to a better position, once widely practised in Madras, is not opposed to co-operative principles as the

supersession of the committee by the Registrar, however beneficial, must be recognized as being. In any case, it seems only fair that before such actual supersession the declaration of the Registrar's intention should be made and that an opportunity should be given to the members at a special meeting to take such action as it sees fit to remedy matters, its choice of an agent being necessarily, in the present situation, subject to the Registrar's approval.

One of the most difficult problems of management is connected with the insistence required on the repayment of loans when due. This is vitally necessary and undue leniency has often proved to have been mistaken kindness, encouraging irresponsibility and almost necessitating greater future harshness. When some compelling reason, such as crop failure or illness, justifies extension, it should be formally allowed before the demand falls due. The Central Banking Enquiry Committee held in 1931 that 'extensions for repayment should be given only in circumstances of exceptional difficulty'. As checks upon undue leniency in this respect might be suggested the requirements that extensions should be granted only with the approval of the central financing institution, and that extensions to members of the managing committee should require in addition the consent of the members at a general meeting.

The Committee on Co-operative Societies in the United Provinces (1922) held that postponement should be liberally allowed, both by banks and societies, when crops were bad or an individual had suffered unexpected loss.³¹⁶ But letting overdue loans slide or making book adjustments to show a loan paid and a fresh loan taken without any corresponding transactions having taken place has been the bane of the Movement in more than one Province. Loans made immediately, or very shortly after, repayment of old loans should properly be objects of suspicion, especially in the case of agricultural societies, where current loans are not normally required

at the harvest season, when repayment normally is made. At other times, where the money actually changes hands but a new loan is sought immediately, a short-term loan by an obliging money-lender may be the explanation. The Reserve Bank has well called fictitious repayments 'a co-operative crime of the worst kind'.²⁶⁴

The practice has not been uniform of crediting repayments to principal instead of to interest. It would be desirable if the annual *Statistical Statements* could indicate the amounts due in the several Provinces and States as principal and as interest. The Reserve Bank complained in its *Review of the Co-operative Movement in India, 1939-40*, that no accurate figures for overdue interest were available, though apparently the amount was considerable.³¹⁷ On the rare occasions where the figure is come across it is sometimes startling, as in the North-West Frontier Province Registrar's report for 1942-3, which mentions overdue interest for agricultural credit societies as Rs 3'67 lakhs as compared with Rs 2'66 lakhs for principal overdues.³¹⁸ The unauthorized overdues of agricultural societies for the country at the end of 1945-6 represented 32'9 per cent of demand; those for non-agricultural societies, 10'9 per cent. For agricultural societies the range of overdues percentage is from 90'9 in Assam (1944-5) and 81'5 in Bengal, where over two crores were overdue in 1945-6, to 0'3 per cent in Alwar and 2'6 per cent in Ajmer Merwara.*

In practice, the difficulty has been less with undue leniency in extensions than in a complaisant attitude towards unauthorized overdues. The Madras Co-operative Committee went so far as to recommend moving against defaulters after three months, giving extensions in all deserving cases and closing the loan account in all others.²⁸³

Mounting overdues raised a problem which became acute during the depression years, when past seasons of over-borrowing and under-vigilance, coupled with low

* See Table IV.

prices of agricultural products and aggravated sometimes by successive years of crop failure brought the Movement to the very brink of disaster in several Provinces and States. A subsequent phase of over-severity in Berar,³¹⁹ in Delhi,³²⁰ in the Punjab,²¹³ and elsewhere brought suffering to many others than the wilful defaulters for whom no clemency could be expected, and brought the Movement in the areas involved into unpopularity, making its victims bitter and alienating the sympathy of even good co-operators. It was reported in the twenties that in one Province 40 per cent of the defaulting members of 130 liquidated societies in a single district were so broken in spirit that they left to seek fortunes elsewhere, while half the remainder gave up the cultivation of their lands in despair.³²¹

The Bihar and Orissa Banking Enquiry Committee urged that it was essential to prevent societies reaching the stage of liquidation, or, if liquidation became inevitable, that it be carried through before individual defaulters became insolvent.³²² It is in letting matters drift that the danger lies—for the society as well as for the members. Hence the necessity for thorough supervision and for vigorous and prompt action when necessary.

Pressure and moral influence have since the thirties been increasingly relied on in the Punjab,³²³ Delhi,³²⁴ Bihar³²⁵ and Orissa²⁸⁶ as an alternative to wholesale executions of awards, and, at least during these fairly prosperous days, are reported to have been working well. That moral suasion cannot be wholly relied upon, however, is evident from the effect reported of the temporary suspension of awards as a relief measure in Sind in 1942-3³²⁶ and in Indore in 1947.³²⁷ The Indore Registrar remarked in his 1946-7 report: 'This has not only adversely affected recoveries but even stopped voluntary repayments, especially in the rural side of the Movement.'³²⁷

The widely launched rehabilitation programmes,

following investigations by experts, varied from Province to Province, but in many cases the principles were accepted of determining the financial position of individual members, reducing the indebtedness of members unable to repay in full to an amount within their repaying capacity in instalments spread over a number of years, reducing or remitting interest charges where necessary, furnishing seasonal finance on a moderate scale, writing off bad debts (which in some cases involved Government assistance to the central financing institution) and, so far as possible, setting the stage for a fresh start. Even where unlimited liability was enforced the hire-purchase system whereby the former owner could work his forfeited land and buy it back by instalments over a number of years was copied in some cases from the rehabilitation scheme successful in Burma after the collapse of the Movement there. The Reserve Bank's suggestion that if a member who had paid one-fourth the total number of instalments then could not pay the rest, he should be allowed to get one-fourth of his land, is eminently fair.³²⁸

A marked tendency is discernible to put the burden of taking action against defaulters upon the Co-operative Department, which naturally is weakening to the managing committee's sense of responsibility. The Department in the Punjab was refusing at the end of 1945-6 to make further recoveries except for societies under liquidation or in the class scheduled for liquidation unless improvement was effected.³²⁹ The committee's reluctance is understandable where, as in the Punjab³³⁰ and even in Mysore,³³¹ village resistance to coercive measures against individuals is sometimes encountered. In one case in the Punjab, when conditions were hardest, the resistance did not stop short of the murder of an execution agent and the nephew of a zealous society president.³³⁰ That is happily exceedingly rare. A more frequent difficulty has been that the defaulters have often included managing committee members themselves, which embarrasses them in bringing others to book. The

Registrar's power of cancellation of the registration of a society, added to the central institution's power of withholding finance should, however, furnish the necessary energization to take action against defaulters, once the committee members have been sufficiently educated in the privileges and responsibilities of co-operation.

Not all village societies can be expected to have the energy displayed a number of years ago by one at Dehra Dun in the United Provinces, where a member declined to pay his dues, with resulting danger of a loan being refused to the society as a whole. The other members waited until he had converted his produce into cash and then surrounded his house and threatened to pull his roof down. He paid up promptly.³³²

In some Provinces there has been considerable difficulty in getting the necessary co-operation of the authorities in enforcing arbitration awards.³³³

The mortality among primary societies has been disturbingly high. In connexion with Mr (now Sir) Malcolm Darling's investigation of the Co-operative Movement in the major Provinces on behalf of the Government, he found that, by the end of 1934, 24 per cent of all societies started since the beginning of the Movement had gone into liquidation, the percentage being as high as 49 in the Central Provinces and Berar.³³⁴

The Reserve Bank warned in its Statutory Report, 1937, that 'liquidation not only kills the society but brings the Movement into disrepute and leaves a void in the structure of agricultural finance'.³³⁵ Too hasty resort to compulsory liquidation, moreover, may make recoveries more difficult, and invite the alienation of property still possible under the existing legislation.

More than half the societies in Bhopal had been weeded out by 1941-2.³³⁶ In Berar in 1938, 45·7 per cent of all primary societies and 44·5 per cent of members were under liquidation or award.³³⁷ The percentage which societies under liquidation represented of the total number of societies had increased in more than one-third of the

Provinces and States between 1938-9 and 1945-6, though a general decrease from 8·7 to 6·3 per cent was recorded in the Reserve Bank's computation.³³⁸ Obviously, it would be premature to proclaim the Movement well out of the doldrums even yet.

An increase in the percentage of societies under liquidation is not altogether a bad sign where the Movement has been in a bad way and things have been allowed to slide. But it is necessary to remember that, as the Reserve Bank observed in 1941, more than surgical treatment is required to restore the co-operative body to health. Also vitally necessary is 'proper observance of the indispensable rules of health, of the essential co-operative principles the neglect of which was responsible in no small measure for the plight that overtook the Movement when adversity succeeded prosperity'.³⁸⁴

One of the most regrettable features of the position is the inordinate delay often found both in arbitration and in liquidation. Greater use of qualified honorary arbitrators, as in Madras,³¹⁵ may reduce the delay in connexion with arbitration, while a more adequate staff and making greater speed and efficiency worth the liquidators' while may help to reduce liquidation delays. Having liquidation hang fire for years is a bad example to working societies, as the Kashmir Registrar remarked.³³⁹ In his Province, with 166 societies under liquidation at the beginning of 1945-6 and 20 more liquidated during the year, a single society's accounts only were finally settled during 1945-6.³⁴⁰

Liquidation before cancellation, as in Bombay and North Orissa, seems preferable to the contrary practice followed in some Provinces. It was recommended by both the Madras³⁴¹ and Mysore³⁴² Committees. It keeps the society alive until all that can be done with and for it has been done; there have been cases where a society under liquidation has been got on its feet again, though such are rare as liquidation is commonly the last resort.

One lesson which the drastic experiences of the depres-

sion years, and the unsatisfactory overdue position in several Provinces today, should have brought home to those responsible for the Movement is the great importance of building up adequate reserves and bad-debt funds.

One of the most important of the Registrar's statutory functions is audit, though he may delegate it either to his subordinates or to a non-official agency. The Madras Committee objected that the latter inspired less confidence in the public and that the Department staff should handle most of the audit work.³⁴³ It recommended separation of the administrative and audit branches of the Department, in the interest of efficiency.³⁴³

An annual audit of every society, including an examination of overdue accounts, if any, and evaluation of a society's assets and liabilities, is required by law, but pressure of work and an inadequate staff sometimes have made it impossible to include all societies in the audit, even once a year.

There has been not a little confusion about the differentiation of the functions of audit, inspection and supervision. There is no uniformity of practice, but in general the Co-operative Department assumes the function of audit, delegating it sometimes for the larger societies to approved auditors; sometimes, as in Bihar, local auditors have been relied upon for the rural societies, with test audits by the Department, which seems risky. The Department in a number of Provinces and States, or the central financing institution, looks after the inspection of societies, but their supervision is often entrusted to supervising unions or central banks or the Department, or a combination of these.

The reconstructed banks and societies in Bihar need pay no audit fee for five years;³⁴⁴ 'infant societies', i.e. those under eighteen months old, are exempt from audit fees in Bengal, which in 1928-9 was making over a lakh more on audit fees than it was spending; the fees there are said now to fall far short of the cost.³⁴⁵ The Saraiya

Committee apparently envisages the bearing of the audit cost by the Government,³⁰⁷ but today free audit for primary societies is the exception, not the rule. The Fifteenth Conference of Registrars recommended that audit be entrusted to a special staff working directly under a Chief Auditor and the Registrar.³⁴⁶

The Royal Commission on Agriculture was opposed in principle to free audit: 'As a rule, we consider that Government should spend money on education rather than audit. The audit of healthy societies is not a proper charge on the public funds.'³⁴⁷

The MacLagan Committee defined audit as involving not merely the preparation of the balance sheets of societies, but also a sufficient check, in accordance with such rules as the Registrar may lay down, of the list of the material assets of the members. The audit should . . . extend beyond the bare requirements of the Act and should embrace an inquiry into all the circumstances which determine the general position of a society. It would, for instance, be the duty of the auditor to notice any instances in which the Act, rules, or by-laws had been infringed, to verify the cash balances and certify the correctness of accounts, to ascertain that loans are made fairly for proper periods and objects and on adequate security, to examine repayments in order to check book adjustments and improper extensions, and generally to see that the society is working on sound lines and that the committee, the officers and the ordinary members understand their duties and responsibilities.³⁴⁸

It is safe to say that this counsel of perfection is very far from generally followed. A perfunctory audit with failure to analyse the findings and to see that defects are corrected is, however, little better than none. Hence the late Professor V. G. Kale's recommendation for Gwalior, that an auditor should be in charge of a particular tract for at least three years,³⁴⁹ to ensure the continuity of audit desirable for making sure that the auditor's previous directions have been carried out.

The Mysore Committee's recommendation that a running audit, daily or weekly, be conducted in every society, by a member of its committee or by one or more of its members,³⁵⁰ is excellent.

Sometimes, because of inadequate staff, the functions of audit and supervision are combined, an obviously undesirable practice, as the Kashmir Registrar himself recognized.³⁵¹

The Gadgil Committee did well to remind us of the need, in India especially, for adopting the credit principle that 'the greater the risk the greater must be the supervision of the loan'.³⁵²

A commendable feature of the audit system in Madras has been the requirement that the auditors summarize immediately the defects brought out by the audit, the statement being sent to banks and federations for necessary action.³⁵³

The requirement is general that primary societies shall be rated comparatively on the basis of the annual audit findings, but the basis of classification is more or less arbitrary, so the results are not strictly comparable, either as between Provinces or from year to year in the same Province. The classification is guided generally, however, by the standards laid down by the Registrars' Conference of 1926, with local modifications such as the setting up of a division into Ci and Cii in the Punjab and in Delhi, or the adding in several major Provinces of the E classification, signifying utter hopelessness. The original classification is into the following categories:³⁵³

- 'A' or model societies, in sound condition in every way, observing co-operative principles and independent of outside help, except for annual audit ;
- 'B' societies which are generally in a sound condition and capable of managing their own affairs but fall somewhat short of the 'A' standard by deficiencies in co-operative spirit and education and may even have a few defaulters ;
- 'C' societies, the mediocre group, wherein most societies, like most individuals in real life, fall, having their shortcomings but muddling on ; and
- 'D' societies in a bad way, over which hangs the threat of cancellation if they do not improve within two years, and which are supposed to receive no fresh loans from their central institutions.

In practice, the sword theoretically hanging over D class societies has sometimes not fallen for years on end, as in the Punjab during the depression. A and B class societies outnumbered C class in 1945-6 only in Bombay, Coorg, Delhi, Sind, Baroda, Cochin and Mysore, Coorg having the outstanding showing of 90·9 per cent in the two highest brackets, to which Bengal and the United Provinces assigned less than one per cent of their societies. Making all possible allowances for difference in the basis of classification, this suggests that co-operative practice in some of the larger Provinces and States might profit by a study of the methods of certain of the smaller ones. It may be mentioned, however, in extenuation of the relatively poor showing as far as A and B class societies are concerned, that a veteran co-operative official, Mr H. Calvert, admitted in 1939 that, though he would not have the classification altered, 'no English joint-stock bank would ever be classed A and probably not B'.³⁵⁴ It is noteworthy that in Bombay A and B class societies had risen in 1946-7 by 75 and 385, respectively, since the previous year.³⁵⁵

The number of societies 'not classified' seems unduly large in certain Provinces, among them several in which the Movement has been weak. It is understandable that new societies should receive no rating. If societies are to be classified at all, however, why, for example, should 60·1 per cent of all Bengal societies have remained unclassified in 1945-6?³⁵⁶

A differential in interest charges to A and B class primary societies and those to all others as an incentive to efficiency, would be passing on to the lower co-operative levels the benefit of the Reserve Bank's reservation of its short-term accommodation to A and B Provincial banks. But in so far as privileges go with the higher rating, it becomes essential to make the classification subject to review on the appeal of any society. One which considers that it has been unfairly treated in being assigned to a lower category can ask the Registrar

to reconsider it; sometimes he has raised it on appeal.

Opinions differ as to the number of societies one auditor can handle satisfactorily. The Maclagan Committee contemplated original audits being conducted by representatives of the co-operative societies, with super-audits at two-year or, later, at three-year or longer intervals, so that each Government auditor could be in charge of 200 or 300 societies.³⁵⁷ But that was before the disastrous demonstration of the possibilities of a too slack rein. The Co-operative Planning Committee suggested 50, but in practice the number of societies to an auditor is often far in excess of this. In Ajmer-Merwara, for example, the Registrar anticipated in 1946-7 that the number per auditor in the following year would be 125.³⁵⁸ The Provincial Banking Enquiry Committee (1929-30) in Bengal declared the auditing of 160 primary societies, which had been expected of a single auditor in that Province, 'a physical impossibility'.²⁰²

It is not surprising, in view of the inadequacy of the staff in many Co-operative Departments, that numerous societies remain unaudited, sometimes, as in the case of 1,320 societies in the United Provinces, for two years.²¹⁴ The Indore Registrar remarked in his 1946-7 report that his Department was 'yet to be equipped for the work of audit of urban societies'. Only 22 out of 50 were test-audited that year.³⁵⁹

The same complaint of inadequate staff is made in connexion with inspection. The Saraiya Committee recommended one inspector to every 100 societies.³⁶⁰ In the Punjab in 1939 there was one in charge of 200 to 300 societies.³⁶¹ In Indore, only 430 out of the 996 rural societies were visited for inspection in 1946-7, and those apparently in connexion with audit.³⁵⁹ The inspector outranks both the auditor and the supervisor and, in the Saraiya Committee's pay scale, receives about twice as much, Rs 145 per month, whereas the auditor and the supervisor each get Rs 73.³⁶²

The Maclagan Committee laid down as a proper

condition of registration the availability of proper supervision.¹⁹⁴ Unfortunately, this sage advice has many times been lost sight of in the zeal for numbers. The Hyderabad Registrar declared in his Report for 1943-4: 'Slackness in supervision has been one of the main causes of the failure of a number of societies and a general deterioration of the movement.'³⁶³

The supervisor's primary duty, of course, is to educate the society and especially its officers in their work, but in many cases he also arranges for the disbursement of loans to the societies from the central banks and sees to their proper distribution to individual members. He also sometimes keeps the books and makes recoveries. The Registrar in Hyderabad remarked, after enumerating the duties of the supervisor—'the pivot of the co-operative structure'—that 'his task is arduous and unpleasant and yet he is the lowest paid man, with unsecure and unattractive terms of service'.³⁶⁴

The qualities desired in a supervisor, as outlined by the Bombay Supervision Committee in 1933, were 'experience and knowledge of rural conditions, local influence, if possible, and certainly the ability to get close to agriculturists'. Also, 'enthusiasm, integrity and knowledge of accounts and co-operative principles'.³⁶⁵ The last two might well have come further up the list! But whether supervision is under the direction of the central banks, as in Bengal and Orissa, or of supervising unions, as in Coorg and Indore, of local unions assisted by the central banks, as in Madras, or of District Supervision Committees under the control of a Provincial Board of Supervision, as now in Bombay,³⁶⁶ the agency is less important than the right sort of men.³⁶⁷ There is wide-spread complaint that men of the right type are difficult to get for the meagre salaries offered. The Bengal Registrar remarked in his report for 1945-6 that the supervisors, trained at the Co-operative Training Institute, were 'required to do most arduous work with inadequate remuneration'.³⁶⁸

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The low pay of supervisors is said to lower their prestige and influence with the members, while their frequent lack of knowledge of co-operative principles can only mean that they often give the societies in their charge a bad lead. One would think, from the frequent references to 'disciplinary action' against supervisors, that the need for a higher type of supervisor, properly educated for this very responsible work, would be apparent. It is surely penny wise and pound foolish to let the Movement come to such a pass that a large Government outlay is required to save it, when adequate supervision might have kept it sound at a fraction of the cost of rehabilitation.

The Gadgil Committee said that the supervisory staff should be paid by the Government, but this would mean a further step in the tightening of official control. It is common for societies to pay a contributory fee, often inadequate, towards the cost of supervision, though certain central banks, as in North Orissa, do not demand the contribution from societies that borrow from them,³⁶⁹ while in South Orissa societies with unlimited liability pay no fee. Supplementary contributions from the Government to the cost of supervision have been common but generally inadequate.

The Saraiya Committee recommended one supervisor to 25 societies.³⁶⁰ The Madras Committee (1940) held that for intensive supervision of agricultural credit societies there should be one to each 15 societies.³⁷⁰ It remarked, however, that 'to devise a satisfactory scheme of supervision of village societies on a Provincial scale seems to us to be beyond the range of practical politics'.³⁷¹ In that Province some years ago, for the intensive village reconstruction work undertaken in the Alamuru District, there were four supervisors for every twenty-five societies.

In regard to the distribution of profits of co-operative societies, the Act of 1912 provides:—

No part of the funds of a registered society shall be divided by way of bonus or dividend or otherwise among its members:

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Provided that after at least one-fourth of the net profits in any year have been carried to a reserve fund, payments from the remainder of such profits and from any profits of past years available for distribution may be made among the members to such extent and under such conditions as may be prescribed by the rules or by-laws.

Provided also that in the case of a society with unlimited liability, no distribution of profits shall be made without the general or special order of the Local Government in this behalf.

Any registered society may, with the sanction of the Registrar, after one-fourth of the net profits in any year has been carried to a reserve fund, contribute an amount not exceeding 10 per cent of the remaining net profits to any charitable purpose, as defined in Section 2 of the Charitable Endowments Act, 1890.

Rebates and bonuses to members out of surplus profits according to the volume of their deposits or their borrowing are, of course, legitimate, but it is recognized, at least in theory, that the accumulation of profits should be no part of the aim of co-operative credit societies. In several Provinces, no dividends on shares of unlimited liability societies are paid. The maximum rates for dividends of societies with limited liability are commonly fixed, but vary somewhat from Province to Province, with a maximum of 10 for the usual dividend in several, and a minimum of 1 per cent, subject, of course, to there being any profits to distribute, which is by no means generally the case.

The portion of the net profits which may, with the Registrar's permission, go to any common-good purpose is sometimes less than the 10 per cent allowed by the Act of 1912 or the 20 per cent allowed by the Bombay Act.³⁷² In Mysore the limit is 15 per cent;³⁷³ in Travancore it is only $7\frac{1}{2}$ per cent.³⁷⁴ While education, medical relief, free reading rooms, etc., have all been beneficiaries of co-operative societies in several areas, a common shortcoming of the Co-operative Movement in India, as compared with certain other countries, has been its relative self-centredness. It is well to have such restrictions as to the portion of the profits that can be

devoted to the common good as the efficient working of societies may require, but the provision of village amenities out of the society's surplus funds has generally fallen short of what might have been expected in the light not only of foreign co-operative performance but also of Indian traditional bounty. The digging of a public well; the planting of a shade-tree beside the road; the erection of a rest house for travellers—such forms Indian charity has taken from most ancient times.

This defect of the Indian Co-operative Movement has not gone unnoticed. The objects of societies in Bihar and Orissa were widened in accordance with a circular from the Registrar in 1926 to include, besides credit, thrift, sanitation, medicine and recreation, the creation among members of 'a spirit of service, of mutual help and tolerance among all castes and creeds, by utilizing all occasions when help and service are needed by undertaking joint work for common village needs, such as the excavation of a tank or a well for drinking water or the construction or improvement of the roads'.³⁷⁵ Shri K. Subba Rao of the Reserve Bank is keenly alive to this weakness of primary societies and on his occasional tours of inspection in different parts of the country draws attention to useful avenues of service to the village community. More is needed than the writing of good intentions into the by-laws.

There are striking exceptions, like the Bengal cultivators' society which in the twenties was reported to have spent about Rs 12,500 in subsidizing schools in its area. In Mysore the Thogateri village society, with a membership chiefly of weavers, had in the thirties transformed the hamlet which, as an 'Inam' (privately owned) village, had no part of the revenue spent on the people. The society had started schools, made lighting and conservancy arrangements, built bathing ghats and instituted weaving scholarships, furnishing an outstanding example of the social possibilities of Co-operation, though, unfortunately, over-dependent

upon the vision and initiative of a few, it later deteriorated.

The Registrar's statutory check on the purposes to which common-good funds may be devoted may in some cases act as a deterrent to local social expenditures. The Bombay Provincial Co-operative Institute in June 1948 appealed to all co-operative societies to contribute the entire amount available from their yearly profits for common-good purposes to the Mahatma Gandhi National Memorial Fund. While this would ensure their donations being wisely used for the public benefit, it might well leave worthy local causes languishing.

Some societies outside the credit field, such as the numerous cane marketing societies in the United Provinces and in Bihar which have undertaken village welfare activities, have devoted their common-good funds to the improvement of roads and of water supply, medical aid, education and thrift promotion.³⁷⁶

Non-Agricultural Credit Societies

Separate figures are not available for non-agricultural rural credit societies, but they form a relatively unimportant group, both numerically and in volume of business. Mr F. W. Wace remarked in 1939 that such societies consisted largely of menials and were generally not a success 'because their members have small assets and uncertain income, and their moral and educational standards are low'.³³⁷

There is doubtless some overlapping in the classification, as many societies designated as industrial have credit as their major function but, taking the classification as it stands, there were 7,554 non-agricultural credit societies proper in the country as a whole in 1945-6. The working capital of those analysed by the Reserve Bank³⁷⁸ (6,731 with 1,314,000 members in 1938-9 ; 7,185 with 1,639,000 members in 1945-6) showed an increase of

Rs 1,464.65 lakhs in that period, or 62.1 per cent, the increase being chiefly in loans and deposits, which indicated the public confidence enjoyed by these institutions. During the same period, owned capital increased by only 41.1 per cent, to Rs 1,169.22 lakhs. Loans and deposits held at the end of 1945-6 amounted to Rs 2,662.8 lakhs, and loans outstanding at the year's end to Rs 1,913.0 lakhs. Total liabilities in deposits and loans were 2.3 times the owned capital, against 1.8 times in 1938-9.

Limitations are placed on the ratio of total liabilities in deposits and loans to the subscribed capital. The maximum is sometimes ten times the value of the owned capital.

Non-agricultural credit societies may be divided in general into banking societies, large and small, which aim at doing a general banking business, financing traders, entrepreneurs and other groups; and societies for salary or wage earners.

Bombay and Sind have made a distinction between urban credit societies having a paid-up share capital of Rs 20,000 or more and others. Urban co-operative banking is most highly developed in Bombay and Madras, where it occupies an increasingly important position in the general credit structure, practically every town having a co-operative bank. Among their contributions to the solution of the country's banking problems may be mentioned their helping to popularize the use of cheques.³⁷⁹ Bombay in 1946-7 had 126 urban banks and salary-earners' societies in the higher group out of its 928 non-agricultural credit societies and they made a profit of 1 per cent on their working capital. Bihar and Orissa have a few small urban banks but the number of banking societies has declined since 1938-9 in Assam, Bihar, the North-West Frontier Province, the Punjab and Sind and also Hyderabad.

Such banks are almost indistinguishable in their functions from commercial banks. They have fixed, savings and current accounts, their clientele including non-mem-

bers as well as members. Their chief business is in short-term credit, long-term credit being generally recognized as outside their field. The Bombay Banking Enquiry Committee believed that urban banks should not be allowed to finance artisans' societies, which it held to be the legitimate province of the central banks,¹⁴² but much more recently the Madras Committee on Co-operation recommended that where no societies for crafts, arts and small-scale or cottage industries existed, the urban banks should be entrusted with organizing these and financing members of these classes with caution, by cash credits, etc., to save them from exploitation and to raise their living standard.³⁸⁰

Such banks give accommodation on the security of agricultural produce and other merchandise, on personal security or on the pledge of gold and silver, life insurance policies, Government securities and on real property.³⁸¹ They also finance their members for industry and trade. For the 98 urban banks and societies, the particulars for which were given in the Bombay Registrar's report for 1944-5, the average loan per member was Rs 446.6 and the average deposit per member, Rs 350.4. The amounts which may be lent to any member without mortgage or other tangible security are limited under the by-laws.

Non-members are welcomed for other business, except the discounting of bills, on an equal footing with members, but they do not, of course, share in the dividends or in any bonus paid sometimes to members on the basis of the volume of their transactions with the bank.³⁸²

The value of competent management has been shown convincingly in Bombay, where the urban banks' fine record owes much to the efforts of philanthropic financiers like the late Sir Lalubhai Samaldas and his son, Shri Vaikunth L. Mehta, Shri R. G. Saraiya, Chairman of the Provincial Co-operative Bank, and many others.

Except in a large city, one urban bank to a town is preferable, not only from the point of view of financial

strength and stability, large transactions and adequate staff but, as also pointed out by the Madras Committee in 1940, because it avoids the problems of overlapping jurisdictions and undesirable competition for securing deposits or business. That Committee also stressed the desirability of members' not joining and borrowing from more than one credit society, even of limited liability type, except a land-mortgage bank or a house-building society.³⁸³

Provident schemes have been a feature of several urban banks in Mysore,³⁸⁴ as well as of both urban and central banks in Bengal and elsewhere, small monthly payments securing to subscribers a fixed sum, including a good profit on their deposits, at the end of a certain period.³⁸⁵

The urban credit societies in general are on the Schultze-Delitzsch model, with the working capital derived chiefly from deposits and share capital,³⁸⁶ and with limited liability, which applies either to the amount, if any, unpaid on shares held by individual members, or to such amount as the members may undertake to contribute respectively to the assets of the society in the event of its being wound up. The amount for which individual members are liable must not be less than the share value, and the amount of liability attaching to each share must be fixed by the by-laws. A society cannot reduce the liability on each share without reconstitution, but it may reduce total liability, with the sanction of the Registrar, by reducing the number of shares.³⁸⁷ Profits may be divided after the required 25 per cent is set aside as a contribution to the reserve.³⁸⁸

The dangers of large societies are negligible on the urban side of co-operative credit, the quantitative factor in regard to membership almost balancing the qualitative. Too small a scale in city banks, as Dewan Bahadur H. L. Kaji has pointed out, is only too likely to mean inefficient management and staff and unbusiness-like methods. He calls attention to a drawback often

overlooked, i.e. that too close a tie between members, in addition to facilitating thorough knowledge of the borrower, which is desirable, fosters sentiment and backstairs influence, which are not.¹⁴⁷

The safe expansion of co-operative societies' activities, either in size or in complexity, depends largely on competent staffs. The larger co-operative banks include among their members and directors the best educated and qualified men available.

Unlimited liability is sometimes found in non-agricultural credit societies, in the case of groups having few assets, like petty traders, artisans and menials.³⁸⁹ Of the 7,554 societies in 1945-6, 68.5 per cent were on a limited liability basis.

The considerable increase in deposits in the last few years of course reflects the increase in the income of many during the war years, though increasing hardship was experienced by those with fixed incomes, due to the rise in prices generally. Deposits serve a very useful purpose in checking inflation, but beyond the point where they can be profitably invested, the interest payments on them represent a handicap. The Bombay Registrar reported the banks flooded with deposits in 1946-7, though their reduced interest rates could stand comparison in most cases with the prevailing rates of joint-stock banks of comparable size.³⁷⁹

A free field is left to co-operative banking in the 60 per cent of the 2,703 towns in India which the Co-operative Planning Committee reported were not served by joint-stock banks.³⁹⁰ Elsewhere, it has been reported, as in Bombay, there has been some demand for permission for well-developed urban co-operative banks to convert themselves into joint-stock concerns. The Saraiya Committee bases its rejection of this proposal on the ground that, to say nothing of the Co-operative Department's past counsel and assistance, such a change would be an abuse of the concessions from the state in the matter of taxation, audit charges, etc., which had assisted

considerably in the development of such banks and the building up of their reserve funds. Such concessions had been given to enable the banks to serve the small and the middle-class man, only too likely to be neglected if the co-operative bank were allowed to convert itself into a capitalistic enterprise. It is not profit for shareholders at which a co-operative institution should aim, but service of its members 'at the cheapest possible cost consistent with soundness and solvency.'³⁹⁰

It may be suggested on the other hand that the more emphasis placed by such institutions on the strictly commercial aspect of their business, the less entitled would they seem to be to privileges at the taxpayer's expense. The Co-operative Movement has so much more ground to cover than it can conceivably manage to do within the next few years that there need be no effort to hold institutions desiring their freedom and apparently fully capable of surviving on their own. As shareholders, the members should be able to stipulate at the time of the transfer that their credit needs would continue to be met on reasonable terms. And it would always be open to them and to others to organize their own co-operative society. Meantime the Co-operative Department could free its efforts and resources for enterprises which both need and want them.

Apropos of interest rates in the light of the purpose which these urban societies are designed to serve, it would seem that, low as the rates on lendings may be today as compared with the earlier years of the Movement and with those of agricultural societies at the present time, the urban banks' rates are in many cases still too high for the classes which they largely serve. When a bank with a lending rate of $9\frac{3}{8}$ per cent declares a dividend of $7\frac{1}{2}$ per cent on shares, one must wonder whether a cheaper lending rate should not be offered.

There are, of course, restrictions on the investment of surpluses. The Co-operative Planning Committee favours relaxing the requirement that surpluses must be

invested in Government securities, etc., which naturally carry the low rate of interest which their dependability makes acceptable to the public. The Committee would permit urban banks (after due provisions for fluid resources) to invest the surpluses in gilt-edged securities or to deposit them in banks approved by the Registrar, a proposal not favoured by the Fourteenth Conference of Registrars. The Fifteenth Conference of Registrars, however, recommended that the surplus funds of urban banks should be deposited in the Provincial and Central Co-operative Banks for financing societies. If not needed by them, it recommended, 15 per cent of the surplus, after providing for fluid resources, might be invested as unanimously decided by the board of each urban bank, subject to such terms as the Provincial Government might lay down.³⁹¹

Membership in the ordinary people's bank is properly not limited to a special caste or occupation. Credit societies on a communal or a caste basis, however much they are frowned upon, have often been successful, so far as their working goes, but anything that strengthens the divisive spirit in India today must be deplored.

The devices to encourage thrift, thereby counteracting the tendency found in many urban societies to borrow rather than to save, are several. Compulsory deposits have been tried,³⁸² and also the recurring demand deposit—one made by a person who undertakes to pay to the society every month a fixed amount for a certain period, at the end of which the amount of deposit with interest at a preferential rate is paid to the depositor.³⁹⁰ A variant is the 'Day-Deposit' scheme, recommended by the Madras Committee on Co-operation for extension, obviously most suitable for a small-scale credit society with a compact area. Under this, each member makes a fixed deposit daily of As 4 to a multiple of Re 1. At maturity the amount due for refund is either paid to the depositor or credited to his loan, if any.³⁸⁰

That Committee urged that the urban banks under-

take a vigorous and sustained thrift campaign, linking savings with particular purposes, e.g. long-term deposits for house purchases, short-term for trading needs, etc.¹⁸⁰ For the full success of such a project, assistance in budgeting would in very many cases be required, for which education in family budgeting as well as in economics would be of value to the members.

Another common device for encouraging thrift and discouraging unproductive loans in salary-earners' societies is to limit the amount of the loan to a given multiple of a member's deposits or of the shares held by him, or to a fixed multiple of his monthly salary. Such fixed maxima also go far to ensure impartiality in the handling of loan applications.

Credit for consumption is a risky business at best, and controlled credit is especially necessary in the salary-earners' and mill-hands' societies, where loans are sought as a rule for purposes which, however necessary, cannot be called productive in the sense that repayment can be expected out of the proceeds of the funds employed. The salary-earner's sole assets may be his honesty and his ability to save, and the possible margin between his earnings and his unavoidable expenditures may be the only security he has to offer.¹⁸¹

If a man's earnings, with his best efforts, will not stretch to cover his absolutely necessary expenditure, and there are too many such in India, he may be a proper object for charity until the grave deficiencies of the Indian wage scale can be corrected, but there is no place for him in a credit society.

Among the most successful of the salary-earners' societies are the railway societies and those for the employees of certain Government Departments. Many a private firm also has its own credit society. The employees who belong to such co-operative societies have at least nominal control, but where dues to the society are deducted before salaries are paid, we have the urban version of 'controlled credit', with equally little of the

potential moral benefits of the Co-operative Movement.

A co-operative credit society should be recognized, wherever there are none, as essential to any well thought-out plan for industrial welfare. The companies which have launched them with their own financial assistance, as part of their welfare programmes, have made a good investment. The Central Banking Enquiry Committee believed that employers, in their own interest, should pay greater attention to the provision of credit facilities for their employees and also should take more part in the supervision of societies started for their benefit.³⁹⁴ In such societies the fiction of supreme control vesting in the general members' meeting is maintained, but their success depends largely on the interest taken by the firm and especially on its co-operation in deducting dues from salaries. How essential the latter may be was illustrated in the pre-depression days in two societies of the Golmuri Tinsplate Company in Bihar and Orissa, out of whose entire loan outstanding against members—Rs. 28,744—Rs 27,413 became overdue.³⁹⁵

Where the company co-operates by such deductions, bad debts are negligible, provided there is reasonable security of tenure. It is chiefly the rapid turnover among mill-hands that makes societies for the poorly paid groups of wage-earners more hazardous. Limited liability societies in Delhi, mostly of employees though a few admit other members, had in 1945-6 only 56 'defaulters' out of 4,539 members, and 40 of the 56 were deceased! The average indebtedness per member was Rs 289. The societies were running almost entirely on their owned funds, which totalled Rs. 9 lakhs.³⁹⁶

Bombay had, in 1946-7, 195 mill-hands' societies with a working capital of Rs 10,999,666 and members' deposits of Rs. 3,536,605, both more than the preceding year. Some had opened fair-price shops and undertaken the joint supply of domestic requirements.³⁹⁷

The managing committee in 'company' credit societies is very likely to be dominated by its *ex officio* members.

Such an *ex officio* officer was chairman of the annual meeting of one employees' society in a large industrial establishment which the writer attended. They went through all the motions of nominations, elections, and passing of resolutions, but everything was cut-and-dried and evidently according to a pre-arranged programme. When nominations were called for, one member rose and read a list of names to which no additions were offered, and the slate was elected unanimously. Resolutions similarly were read when called for by the chairman and passed without discussion. Such highly centralized control as this would seem to indicate is scarcely democratic or in harmony with co-operative principles, and must fail in one of the chief objects of the Co-operative Movement, namely, the education of the members and the increasing of their sense of responsibility and initiative.

There has been some complaint of the overdues of urban banks and societies. Though the position is good in general in Bombay, where in 1946-7 overdues averaged only 6·8 per cent of individual loans outstanding,³⁷⁹ the Berhampur Urban Bank, the largest in Orissa, with a working capital of nearly 10 lakhs, had overdues at the end of 1945-6 of 34·2 per cent.³⁸⁸

The raising of the non-attachable limit of salary from Rs 20 to Rs 100 by the amendment of the Civil Procedure Code in 1937 is reported to have proved a handicap to recoveries. Bengal and Bombay have amended their respective Co-operative Societies Acts, to safeguard co-operative societies' interests.³⁸⁹ Rs 100 may be somewhat too large an exemption from the point of view of the co-operative society, but surely Rs. 20 was far too small for fairness to the dependents of the defaulting member !

The record of urban credit societies of unlimited liability among the depressed classes has been encouraging in some Provinces. Their mortality rate has been high, which is not surprising when one considers the background and the ignorance of many of this under-

privileged group. For the conservancy force in the larger cities, where the co-operation of the authorities can be secured for the deduction of co-operative dues from meagre wages, as has been the practice in the Central Provinces and Berar,⁴⁰⁰ co-operative credit holds a great hope, provided it is linked with educational and social efforts on the sweepers' behalf. Such societies were found by the Bengal Banking Enquiry Committee in 1929-30 to have been highly successful in that Province. Members had been freed from debt to money-lenders in most cases and the standard of living among the members of several societies had appreciably improved.⁴⁰¹ The Indian States appear to have led in efforts for the benefit of the depressed classes, though the desirability of bringing their members increasingly into co-operative societies of mixed membership has been recognized in theory. Baroda had twenty-five sweepers' societies in 1944-5⁴⁰²

Non-Credit Societies

While credit is and must remain for some time to come the chief concern of the Co-operative Movement in India, development in other lines has been steady, if relatively slow, since 1912, when non-credit societies were brought officially under the ægis of the Movement.

In Mysore, in the beginning, societies for agricultural, industrial and distribution purposes formed a major portion of the total number;⁴⁰³ that was, however, the exception.

Mr F. W. Wace remarked in 1939 that 'the considerable and steadily growing strength of the non-credit side of the Movement, improving as it does the economic position of the peasant, adds greater stability to the credit side, quite apart from its educational and moral influence'.⁴⁰⁴

The classification of primary societies for purposes

other than credit in the *Statistical Statements* of the Reserve Bank of India follows the same blanket grouping as that previously followed by the Department of Commercial Intelligence and Statistics—'Purchase and Purchase and Sale', 'Production', 'Production and Sale', and 'Other Forms of Co-operation'. This, though not very enlightening, is perhaps the best that the Reserve Bank can do with the heterogeneous and incomplete data secured, often with difficulty and inordinate delays, from the Co-operative Departments throughout the country. Until the reports from all the Provinces and States can be relied on for completeness and accuracy, such a significant and interesting breakdown by types of societies as is attempted by the Reserve Bank's Agricultural Credit Department in *Thirty Years of Co-operation in India*, that admirable effort at a visualization of the co-operative scene, must be accepted as an approximation at best and perhaps as hardly feasible yet on a year-by-year basis. According to the compilation there, non-credit societies of all types represented in 1944-5 only 20 per cent of the country's total. Of these, the 7171 better living societies formed the largest group, 4·7 per cent of the whole number, followed by consumers' stores (2·5 per cent), cane growers' societies (2·2), industrial societies (1·9), marketing societies (1·8), consolidation of holdings societies (1·6), irrigation societies (0·7), milk supply societies (0·3), and housing societies (0·2), the miscellaneous grouping making up the remaining 4·1 per cent.

As it stands, the national classification is far indeed from giving a clear picture of the development in the various lines. A more logical, if somewhat more complicated, classification of non-credit societies according to their main function seems to be into Marketing Societies, Purchasing or Consumers' Societies, Better Farming Societies, Industrial Societies, Housing Societies, Transport Societies, Labour Contract Societies, Better Living Societies, Societies for Women, Societies for the Depressed Classes and Others. Better Farming

Societies may be taken to include, for the purpose of our study, Societies for the Consolidation of Land Holdings, Societies for Irrigation and Land Reclamation, Societies for Cattle and Sheep Breeding, Milk Societies, Collective Farming Societies and Co-operative Colonies. In the Better Living category we may place not only those societies so called but also Health Societies, Education Societies, Societies having Thrift as their main object, and Arbitration Societies. Forest Societies will be bracketed with Labour Contract Societies. There will still be, regrettably, unavoidable overlapping, because of many societies having practically co-ordinate functions, such as the Purchase and Sale Unions and the Industrial Societies which have purchase and sale as their chief co-operative activities of the Multi-purpose Societies now growing in favour. The former will be classed arbitrarily with Marketing Societies for consideration, as will Loan and Sale Societies, while societies of Industrial workers will be considered together here, though many of these have credit as their primary function. Societies of agriculturists having the processing of agricultural produce as their main function will be considered along with Marketing Societies, much of such co-operative processing being carried on by Marketing Societies as a subsidiary function.

Co-operative Marketing Societies

Marketing has occupied a far smaller place in the co-operative picture in India than in many countries, notably Denmark and the United States, but no other non-credit line of co-operation, with the possible exception of the consolidation of land holdings and joint farming enterprises, seems to hold greater possibilities of help to the great agricultural population of India and Pakistan. Shri A. K. Yegna Narayan Aiyer, prominent honorary worker of Mysore, has called joint purchase and sale the most important weapon in the hands of the small

farmer; 'if he does not wield it he will continue to fight only a losing battle'. Dewan Bahadur H. L. Kaji declared at the Bombay Provincial Co-operative Marketing Society's Annual General Meeting on 23 July 1948: 'It is being increasingly accepted that the future of co-operation lies in the development of marketing more than in any other direction.'

The note from Assam on the agenda for the Fourteenth Conference of Registrars (1944) mentioned 'the present exploitation of the primary producer by a pyramid of middlemen'.⁴⁰⁵ Fraudulent practices, wrong weighing and delayed payments were mentioned by the Reserve Bank in 1941 as some of the practices of middlemen from which the cane societies of the United Provinces, which handled in 1939-40 79 per cent of all the cane crushed in the Province, had freed their members.³⁷⁶

The *beopari*, who buys the farmer's crop, may be a grain-dealer from the nearest market, a local trader, or, more rarely, the agent of some wholesale grain merchant.⁴⁰⁶ Very commonly he is the village *bania* or trader/money-lender.

The Royal Commission on Agriculture favoured the encouragement of co-operative sale societies, 'as these furnish the best means of enabling the cultivator to secure an adequate premium for produce of superior quality'.⁴⁰⁷ The late Rao Bahadur S. S. Talmaki believed that the main reason the farmer still clung to the money-lender was the absence of sale and purchase organizations.⁴⁰⁸

The development of co-operative marketing in India is closely bound up with the problem of credit, the claims of the village money-lender commonly inhibiting the cultivator's freedom of action in disposing of his crop. Almost alone among the Banking Enquiry Committees, that for Bihar and Orissa, discouraged by the disastrous termination of certain experiments in co-operative marketing in that Province, attempted to minimize the

disadvantages to the producer of the prevailing marketing system.

Steps for the stabilizing of agricultural marketing were recommended by the Gadgil Committee 'in order that commercial banks may increase the volume and scope of their business in regard to agriculture'. These steps were the regulation of marketing by law, all marketing agencies to be required to maintain proper accounts and to give the seller vouchers and statements in the prescribed form, and the establishment of licensed warehouses, the receipts of which should be made negotiable. That Committee felt that the state should, as part of its transport development plan, construct warehouses at all nuclear points of trade in agricultural produce, the warehouse system to be operated by a public corporation organized on lines similar to those of a Port Trust or an Improvement Trust.

In line with this recommendation was the report in June 1948 that the Central Ministry of Agriculture was contemplating the increase in the number of large refrigeration plants available for public use from about 12 to about 60 at strategic centres throughout the country. The establishment of licensed warehouses is provided for by law in Bombay,⁴⁰⁹ the Central Provinces and Berar, the North-West Frontier Province and Travancore.

The need of marketing societies for godowns, at least for temporary storage until the crop can be disposed of, and the fact that the construction of such godowns is beyond the average society's means have been stressed and much of the considerable state help widely extended to this form of co-operation has been in the form of grants-in-aid and loans to provide part of the cost of construction.

Desirable as negotiable warehouse receipts are to the country's credit structure, however, sight must not be lost of the danger to the agriculturist, so long as price fluctuations continue uncontrolled, in holding his produce for the hypothetical better market. Experience in the

United States has shown that when the charges for handling, storage and insurance are taken into account, the difference in price between the beginning and the end of the season is often relatively insignificant. The loss believed to be sustained by farmers by selling their produce at harvest time instead of waiting for a period of relative scarcity and higher prices figured largely in the early arguments in favour of co-operative marketing. How to enable producers to hold up their crops for a more favourable market was within the scope of the Banking Enquiry Committees, both Central and Provincial, and this was the main original object of the Madras loan and sale societies, which did not at first undertake any selling, but only made it possible for the cultivator to hold his produce a sufficient time to avoid the low prices after harvest by lending up to 60 per cent of the value of agricultural produce placed in their custody.⁴¹⁰

Speculation is now generally frowned upon, however.⁴¹¹ The old jute societies in Bengal crashed spectacularly in the thirties as the result mainly of their speculative policy. The Bengal Government paid in 1946-7 the eleventh annual instalment of Rs 200,000 granted to the Provincial Co-operative Bank to make good the loss sustained through its dealings with them.⁴¹² A minor crisis occurred among cotton cultivators of Bombay in 1940, when an anticipated rise in prices failed to materialize.⁴¹³ Where essential commodities are involved, holding them that they may become scarce and dear has been characterized by Shri K. Subba Rao as anti-social. The Prophet of Islam called it a sin.

Marketing, as pointed out by the Saraiya Committee, is a complex proposition, involving many functions— assembling, storing, financing, insuring, standardizing, selling and transporting.⁴¹⁴ One factor in its success is the proper grading of the produce, made very difficult by the lack of uniform standards. The passing in 1937 of the Agricultural Produce Grading and Marking Act was a mile-stone in marketing progress. Several

Provinces and States, e.g. Bombay, the North-West Frontier Province, the Punjab and Mysore passed similar Acts shortly thereafter and like action was contemplated by others,⁴¹⁵ so that, though there is not complete uniformity or complete enforcement even yet, a long step has been taken towards them.

Legislation for regulated markets for agricultural produce has been passed and to some extent implemented for specific products in Bombay, the Central Provinces and Berar, Madras and the Punjab and, among States, in Baroda, Gwalior, Hyderabad and Mysore. The Acts passed in the North-West Frontier Province and Sind had apparently not been enforced by 1947.⁴¹⁶

The popularizing of graded products has been facilitated by the use of 'Agmark' labels issued by the Central Agricultural Marketing Department for products graded and packed under the supervision of the Provincial Marketing staff. The Act of 1937 was amended in 1942-3 to widen its scope to include additional products and to provide for recovering from the trade the cost involved in grading, marking and popularizing the graded products.⁴¹⁶ Surveys of market conditions of a large number of specific products have been conducted by the Central and Provincial Governments, reports published and grades defined.

A major obstacle has been the ignorance of the agriculturists. In Orissa, for example, it has been impossible to convince tobacco growers that they will not have to pay more in taxes if their crop is brought to a central godown.⁴¹⁷ Farmers elsewhere have objected to pooling their produce.⁴¹⁸

A greater difficulty has been the determined opposition of middlemen, which has in some cases been so strong that the co-operative enterprise has been abandoned, as in the North-West Frontier Province, where the fairly successful attempt to market potatoes on a large scale was given up, at least for the time being, largely 'because the vested interests of the middlemen were too strong

for us'.⁴¹⁹ Collusion among purchasers has been mentioned as a danger in connexion with the sale of cotton and seeds in Hyderabad, false weights and standards, false market quotations and exactions for commission being mentioned as some of the devices where the buyers are in a position to form a ring and dictate terms.⁴²⁰

The lack of trained and reliable workers is another common complaint, which only patient education can meet. The Bombay Co-operative Banks' Association a few years ago sponsored training classes for marketing society managers, and supervisors of the central banks have been specially trained for duty in connexion with marketing societies in the Central Co-operative Institute, Madras.⁴²¹

In Bombay the plans call for registered purchase and sale federations for each District, to which will be entrusted the work of supervision and internal audit. Madras has a central marketing society or federation for a District or two.⁴²² The United Provinces Department evidently believes less in 'helping lame dogs over stiles'; if marketing societies there require supervisors 'in excess of the strength fixed for them', the full cost of the excess supervision is charged to the society concerned.⁴²³

Early experiments with co-operative marketing were not everywhere a success. Mr H. Calvert referred to it in 1937 as 'the most difficult form of co-operation and also the least understood'.⁴²⁴ The failure of the co-operative commission shops in the Punjab to extend their business was ascribed by Mr F. W. Wace partly to boycott from local traders but more to lack of member loyalty, unbusiness-like methods of the managing committees, and dishonesty among the paid staff.⁴²⁵ Like the late Sir Lalubhai Samaldas, he felt that there could be no great advance in co-operative marketing without considerable state help and control. Small and isolated commission shops, he pointed out, were gravely handicapped by small stock, a small area, limited facilities for acquiring and disseminating market information, and a

low-paid staff. The lack of resources, business experience and the ability required could not be overcome by the union of several similarly handicapped societies, a fact to which enthusiasts for the possibilities of unaided co-operation sometimes close their eyes.

The most effective scientific marketing calls for a degree of business acumen quite beyond the average farmer or artisan in any country, and especially where literacy is the exception, as in India and Pakistan. Farmers and artisans are specialists in production, and the division of labour facilitated by turning over the marketing of their products to qualified specialists in the employ of co-operative groups is obviously in the interest of economy and efficiency.

Unfortunately, many Indian organizations for co-operative marketing have overlooked this well-nigh indispensable requirement of skilled management. A mistakenly directed zeal for economy has led too often to the selection of an unqualified manager, most often a member of the organization, many times little, if any, better qualified for the task than his fellow-members. Lack of business experience on the part both of members and officers of the Department was blamed by the Burma Registrar in 1926-7 for the difficulties which sale and storage societies there had experienced.

Some sales unions have had a committee of control, made up of non-members who are business experts, with the power of vetoing the resolutions of the executive committee and of action on important matters.⁴²⁶

In the Punjab, the permanent post of Assistant Registrar for Marketing was created in April 1941.⁴²⁶ A special Marketing staff in connexion with the Co-operative Department as in Bombay, or with the Director of Industries as in the North-West Frontier Province,⁴²⁷ is, of course, of great importance for the fostering and guidance of the marketing societies.

Able managers, as the Bihar and Orissa Banking Enquiry Committee pointed out, command salaries which

will increase the overhead markedly. For not in all who have mentally accepted the ideal of Co-operation do we find the readiness to sacrifice for the cause. It may be recalled in passing that the man who is credited with having done most to build up the wonderfully efficient consumer co-operative organization in Britain, the late Mr J. T. W. Mitchell, never received more than £150 a year for his labours,⁴²⁸ although he built up an organization with annual sales of nearly £395,000,000.⁴²⁹ Since, cost what it may, able management must be had, the solution is sufficient volume to keep the unit handling cost within profitable limits. As this is impossible of attainment for the average independent sales society, the answer is obviously federation with a competent central staff.

The three methods of co-operative societies in handling and paying for farm products are admirably analysed by the Saraiya Committee. Payment on delivery has the advantages of being the usual market practice and thus meeting the competition of private traders, tending to increase the volume of purchase from non-members and reducing the book-keeping necessary. It places on the society, however, the risk of price fluctuations, makes necessary a larger working capital and a higher-paid staff and also weakens the bond between the member and the society, as soon as the price is paid.

The second method is to pay the farmer what his individual products have sold for, after deducting the society's charges; this method requires more book-keeping and thus increases the cost of the service. Pooling the products and paying the producer the net pool price after the produce is sold, which is the third method, spreads the risks and enables orderly marketing but may encourage speculation and requires a highly paid manager.⁴³⁰

Many sale societies are simple commission agencies on a co-operative basis. Even the Provincial Marketing

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Societies of Bombay and Madras work largely on a commission basis. This is in line with the recommendation of the MacLagan Committee.

Ordinarily we do not think that a society should itself become the owner of the commodities handled. It is preferable that it should buy or sell on commission, or on some system under which it merely undertakes joint sale and purchase on behalf of the members at their risk.⁴³¹

The financing of the ordinary sale societies has not presented serious difficulties, the central banks being the natural recourse when sale societies' own share capital and reserve and the Government assistance which has sometimes been available do not meet their requirements. Sale societies on sound lines offer a profitable investment for some of the central banks' surplus funds, and the policy of advances against agricultural produce, even by urban banks, is well established.

The Bombay Provincial Bank years ago was making a special effort to foster co-operative marketing in connexion with its branches. As early as 1913 the first branch of that bank had organized the sale of *gur* on commission and some by 1930 were handling cotton and other crops. Each branch had a shop connected with it, the profits all going to the societies. Sales of *jaggery* at one time averaged from 10 to 17 lakhs of rupees a year,⁴³² but most of the sales activities of these branches were taken over by purchase and sale unions organized in connexion with them, beginning in 1926, with 35 or 40 primary societies to a union.

The Provincial Marketing Society in that Province has sometimes found supplying the needs of societies more profitable than selling their produce. The Provincial Development and Marketing Federation established in the United Provinces in 1942-3 has had the distribution of essential commodities as its main function. Within four years of its establishment it had attained the position of the premier society in the Province, in respect of

working capital, reserve fund, annual turnover, annual profits and number of employees.⁴³³

The Bombay Provincial Co-operative Marketing Society in 1947-8 earned Rs 33,138 commission on the supply of commodities, and only Rs 5,520 on the sale of products, in which commission profits were larger than trading profits. Fertilisers and Agricultural implements, rationed commodities and other domestic requirements, etc., were supplied to societies and fruit, vegetables and eggs handled besides the purchase and sale of sugar, *jaggery*, etc. The society also conducted a market intelligence service for societies, the further expansion of which has been under consideration. It is of evident importance to orderly marketing. It is interesting to note that the profits of many purchase and sale unions and single-commodity marketing societies are considerably higher than those of the Provincial Marketing Society,⁴³⁴ whose activities have been hampered by transportation difficulties as well as by Government controls.

The division of the sales activities of the Bombay Provincial Marketing Society into sections, e.g. fruits, vegetables and eggs, grains and oilseeds, each under experts in their line, offers a pattern for the set-up of the All-India Marketing Institute, which is the dream of Shri Y. T. Desai, who moved several resolutions for it at the All-India Co-operative Institutes' Conference (1946). In the absence of such an Institute to organize selling activities and co-ordinate the needs of the different parts of the country with the available supply, the Bombay Provincial Marketing Society handles quantities of produce from widely separate parts of India, mangoes from Madras, peas from the United Provinces, grape-fruit from the Punjab, etc., managing its sales with the help of cold storage to avoid a sudden glut of the market with consequent price fall.

A pyramidal marketing structure on a Provincial or State basis, paralleling that for credit, is obviously desirable, with separate sections for the major standardized

lines, but how far the country is from this ideal can be judged from the reluctance of the primary units to affiliate themselves with the Provincial marketing societies which have been set up in Madras, Bombay and the United Provinces, Coorg, Hyderabad, Mysore and Travancore, a reluctance which it would seem could be avoided by making such affiliation a condition for registration of societies having marketing as a function. A Provincial marketing society was reported under contemplation in the Central Provinces,⁴³⁵ several years ago.

The Provincial Governments have in some cases been generous to such societies, not only with subsidies for their establishment but also with contributions to the payment of staff. That, however, the setting of a cap-stone on a pyramid in the building may be precarious is brought out by the experience of the Madras Provincial Co-operative Marketing Society, started in 1936. It sustained a loss of Rs. 93,188 in 1945-6 and of Rs. 64,185 in 1946-7, after closing down several branches and depots and considerably retrenching its staff.⁴³⁶

Without close federal integration, the mutuality of interest is sometimes lost sight of and suggestions are not wanting of a feeling in some instances, on the part of purchase and sale unions, that the central marketing society is a rival rather than a collaborator in a common enterprise. This attitude, it would seem, would only be strengthened by the implementing of the proposal made by Dewan Bahadur Kaji, presiding at the Bombay Provincial Marketing Society's Annual Meeting on 27 September 1946, that branches of the Provincial Society be started for the handling of the standard products which are best sold through a terminal market.

In the circumstances, proposals for an All-India Marketing Association⁴³⁷ or for Commodity Corporations on a nation-wide basis⁴³⁸ seem premature, however, desirable as ultimate aims.

In co-operative marketing, as in co-operative credit, the primacy of the interests of the producers' society has

to be kept in mind. The commissions charged by the successful central societies in cases where the primary societies showed a loss would call for careful scrutiny, with a view to possible reduction.

The value of commission shops on a co-operative basis for keeping down local market charges with resulting lower prices can be over-stressed. Co-operative societies cannot be expected to charge so little for their produce that their own profit is almost negligible. A vegetable sales society in Cochin, for example, is praised by the Registrar for having acted 'as a great lever in bringing down the prices'. Its profit in 1944-45 was only Rs 452 on purchases and sales totalling nearly Rs. 35,000,⁴³⁹ and in 1945-6 only Rs 232.⁴⁴⁰

Another factor which, in the agriculturist's best interest, ought to be remembered in connexion with the promotion of agricultural marketing is that to which Shri J. C. Kumarappa points in his *Economy of Permanence*. There is doubtless considerable ground for his complaint that, in this under-nourished and impoverished country, milk, eggs and honey needed by the family and especially the children of the cultivator are sold away from the villages.⁴⁴¹ There is a danger that this tendency may be increased under pressure from a co-operative society that all that a farmer produces of these commodities must come to it for sale. Education in food values should parallel the marketing activity, and that is a task for the multi-purpose society where separate better living societies are not discharging it.

Co-operative marketing has proved most strikingly successful in connexion with sugar-cane, in the United Provinces and Bihar, where very large percentages of the total output are sold through the cane-development societies and unions, and with cotton, in Bombay and Baroda, where cotton sale societies are commonly linked with ginning and pressing societies in the same co-operative union. In both these lines the societies have been able to raise the quality of the crops, by introduc-

ing improved strains. Other products which have lent themselves well to co-operative marketing have been *ghee* in the United Provinces, dried fruit and eggs in the North-West Frontier Province,⁴⁴² eggs in the Punjab, fruit and vegetables in Bombay, where one co-operative chilli sale society earned Rs 12,306 in 1946-7,⁴⁴³ fruit in Coorg, where an orange-growers' society with 381 members had net profits in 1946-7 of Rs 19,261, over three times its paid-up share capital.⁴⁴⁴ The Hazara Sugar Wholesale Association in the North-West Frontier Province sold over Rs 7 lakhs worth during 1945-6, at a profit of Rs 18,472.⁴⁴⁵ In one or another Province, co-operatives seem to have been established for almost every product, from salt to *ganja* and areca nuts.

The ten-year goal set by the Co-operative Planning Committee for co-operative marketing, with the necessary Government subsidies, is the handling of 25 per cent of the total annual marketable surplus of agricultural produce, through 2,000 co-operative organizations besides Provincial marketing societies and an All-India Marketing Association.⁴³⁷ The Co-operative Department in the Central Provinces has a five-year plan that calls for a multi-purpose society or rural store for every 10 to 20 villages which would collect produce for sale, all affiliated with District regional associations, and for a Provincial Marketing Board to provide market intelligence, etc.; and, hopefully, 'to work in co-ordination with the All-India Marketing Board which may be set up in the future.'⁴⁴⁶

Madras, which in 1945-6 had several marketing federations and societies for potato growers, fruit growers, etc.,⁴³⁸ at the end of 1946-7 had a five-year plan for the co-operative marketing of agricultural produce under consideration by the Government. It aimed at the development of co-operative marketing through 200 sale societies, with the necessary godowns built with Government grants and loans, and with the services of Senior Inspectors.⁴⁴⁷

No more than credit, however, is marketing an isolated problem, nor can the co-operative effort alone be expected to solve the many problems even of marketing. The *Report on the Co-operative Marketing of Agricultural Produce in India* recommended Price Control Boards for certain products, to ensure a price level fair to both producer and consumer, and the fixing of the minimum prices of the better quality produce handled by co-operative societies.⁴⁴⁸ It is highly questionable how this would work in the absence of some type of production planning such as that done in the United States by the Agricultural Adjustment Administration, which plans agricultural production as far as possible in co-ordination with the prevailing economic conditions, guiding and assisting farmers, with their voluntary co-operation in producing what is needed and in the quantities required. As the Agricultural Credit Department of the Reserve Bank has pointed out, the difficult problem of 'effecting some measure of insulation of the national economy against the dislocating consequences of contact with the international economy' has to be faced.⁴⁴⁹ Co-operation alone cannot solve it.

The linking up of producers' and consumers' societies was urged by the Mysore Co-operative Committee in 1936,⁴⁵⁰ and the Provincial Co-operative Marketing Society in that State was intended as a direct link between them.⁴⁵¹ The *Report on the Co-operative Marketing of Agricultural Produce in India* also favours such a link-up.⁴⁵² Producers-cum-consumers' co-operative societies were a prominent development in Madras in 1946-7, and the majority worked at a profit, dealing mostly in food-grains. At the end of that year there were 274 such societies in that Province, with 313,000 members and a paid-up share capital of Rs 166.34 lakhs. Their total purchases and sales were over Rs 10 crores each. The Registrar remarked that they were 'intended to replace as far as possible private merchants and retail traders'.⁴⁵³

This combining of functions in a single society is, however, a different proposition from the linking together of separate producers' and consumers' societies. It is doubtful to what extent this can be peaceably and profitably effected. The one group desiring the highest possible price and the other the lowest, conflict of interests is bound to assert itself unless such a scheme of profit-sharing can be worked out as is reported to have been successful on a small scale at Waukegan, Illinois, between milk producers and milk consumers. There the consumers' co-operative society contracted with the supplying farmers, agreeing to pay them the prevailing price for milk and to sell to its members at the market price, any savings at the end of the year to be divided equally between the producers and the consumers. Not only has the scheme profited both groups, but it has forged good-will between them, as a co-operative enterprise should.⁴⁵⁴

A question may be raised in this connexion as to the processing activities in connexion with agricultural produce, which in India have been assumed generally to fall in the marketing field. Both the Gadgil and the Saraiya Committees recommended the development of such activities for increasing the return to the producer,¹⁸³ and the success of cane crushing, cotton ginning, oilseed pressing and other similar processing experiments has proved the value of such efforts. But in some lines the avoidance by sales societies of unnecessary arousing of opposition from middlemen is wise and one American writer on co-operation has pointed out that a marketing co-operative which undertakes the processing of grain may be boycotted by the other millers who are its potential customers, thus ruining the whole enterprise.⁴⁵⁵

Why should not federations of consumers' societies on a stable basis follow the example of Madras wholesale societies as of the great Co-operative Wholesale Society of Great Britain, and consider the possibility of expan-

sion into the production field in certain lines, thus saving their members not only the middlemen's but also the manufacturers' profits? Many of the 22 District wholesale or central stores in Madras had processing activities in 1946-7—the conversion of paddy into rice, oilseed pressing, etc.⁴⁵⁶

The principle on which consumers' co-operation in the United States has cautiously advanced into production and gone from strength to strength has been that of assurance of demand from co-operative stores sufficient to absorb the entire output of the factory acquired. That assurance could surely be forthcoming from co-operative consumer federations of some size in respect of a number of commodities, of which sugar, wheat flour and milled rice (if its production must be continued at the expense of the more nutritious hand-pounded rice) suggest themselves offhand, with textile mills for standard lines of cloth as a desideratum after the feasibility and profitableness of consumer production in the other lines has been demonstrated and the cloth controls are definitely and finally removed.

Such a development, moreover, should give an impetus to integration and co-operation at the consumer federation level, so desirable to the stability of the consumer co-operative effort. The Government assistance recommended by the Saraiya Committee in the form of a twenty-year loan to a sale society undertaking the construction of a processing plant could with equal propriety, surely, be rendered to a consumers' co-operative federation for the same purpose. It may be worth questioning, incidentally, whether a society undertaking processing for the first time is acting wisely in constructing its own plant rather than arranging to purchase a going plant on equitable terms. The proposed loan might, it would seem, well be made available alternatively, under any necessary safeguards, for such a purpose.

Consumers' Co-operative Societies

The distributive phase of co-operative activity had, before the Second World War, met with indifferent success in India. Its progress was halting and, while what not to do in this direction had been amply demonstrated, the lessons gleaned from experience before the present decade were more negative than positive. The joint purchase of raw materials is, of course, a primary object of the industrial societies. The purchase and sale societies and unions, as their name implies, act as distributive as well as sales agencies, and have played a conspicuous part in the distribution of controlled articles, for example, during the last war and since.

Besides the large part recently played by credit societies and banks in the distribution of rationed articles, a number of credit societies and some of other types had earlier undertaken as a subsidiary activity the co-operative purchase of members' agricultural, and, in some cases, domestic requirements. Occasional bulk purchases of cloth and fodder for the benefit of neighbouring societies had resulted, years ago, from group conferences among *panchayats* of village credit societies in the United Provinces.⁴⁵⁷

Urban credit societies in Madras had undertaken the purchase of cloth and food-stuffs for their members,⁴⁵⁸ and in Bombay the *taluka* development associations and some of the people's banks had carried on this work and the cotton sale societies also bought for their members on the indent system, which of course involves the least risk. The branches of the Provincial Bank, as we have seen, had helped in the distribution of seeds, fertilizers and agricultural implements, and by 1930 the separate purchase and sale societies which had been established were taking over this work only gradually.⁴⁵⁹

Distributive societies were the first type of non-credit society started in rural areas. They were at first confined largely to supplying members' agricultural requirements, but by the time of the MacLagan Committee's

investigation (1915) separate societies had been registered for buying, in addition to farm implements and fertilizers, milk, yarn, and silk, and seemed in most cases to be prospering.⁴⁶⁰ This appearance of prosperity was not sustained in many cases and in the early twenties several failures among co-operative stores shook public confidence in the consumer phase of the Movement.⁴⁶¹

The separate agricultural associations which had been formed in Bengal to buy in bulk for members' agricultural requirements⁴⁶² did not work very satisfactorily. The Provincial Banking Enquiry Committee inclined to the view that their duties could be discharged equally well and more economically by the credit societies or by the sale and supply societies.⁴⁶³ The Bombay Registrar in his report for 1929-30 wrote: 'Speaking generally, experience proves that store societies are most difficult to run, and no fresh attempts should, therefore, be made to organise any consumers' stores.'⁴⁶⁴ Both the Travancore Committee (1934) and the Mysore Committee (1936) recommended the indent system of purchases for rural stores.⁴⁶⁵

There were a few exceptions, chiefly in Madras and Mysore, but the record of consumers' co-operation in India is rather discouraging.

When one thinks of consumers' co-operation in the West, the Rochdale success from small beginnings comes to mind, and the great wholesale co-operative societies of Great Britain. In India, the mention of consumer co-operation as inevitably suggests the Triplicane Urban Co-operative Society, Ltd., of Madras, started in 1905 by fourteen enthusiasts for the Rochdale pattern of co-operative effort, most of them schoolmasters. The management has been conservative. Not until 1926 was a clothing department added to the grocery department with which the store started.⁴⁶⁶ The Triplicane Society has kept its lead. It had, in 1946-7, 13,885 members, sales of Rs 77·67 lakhs, and a net profit of Rs 3·78 lakhs,

or over Rs 27 per member.⁴⁶⁷ It made an enviable record in its quiet and efficient handling of the food situation when in April 1942, as a result of the war scare, most of the retail merchants left Madras in a hurry. The Triplicane Stores stepped into the breach. The Government assisted with special staff and advances for stock purchase and permitted sale to non-members. In addition to its 35 branches, the society opened 30 depots and served for a time as almost the sole supplier of food to the whole city of Madras.⁴⁶⁸

Food rationing during the war gave the consumer's branch of the Co-operative Movement generally a tremendous fillip. It made a rapid advance in Assam,⁴⁶⁹ Bengal and Madras and, indeed, in most parts of the country. In isolated cases, however, like that of Bihar, advantage was not taken of the opportunity for expansion because, the Registrar there reported, the trained staff, busy with the rehabilitation of the central banks, was not available or supervising them.⁴⁷⁰ At the end of 1945 there were only fourteen co-operative stores in the whole Province, running generally on their owned capital and deposits. In the neighbouring Province of Orissa, with about one-fourth as large a population, there were, in 1945-6, 122 consumers' stores with 15,360 members, a working capital of Rs 443,000 and a net profit of Rs 69,000.⁴⁷¹

The consumers' co-operative societies are not confined to the urban areas, though they have made their most spectacular development there, notably, as mentioned, in Madras. Seed stores in the United Provinces, for example, were numerous and mostly successful in 1944-5, the majority of them administered by the Cane Department. In Bombay, the Registrar remarked in his report for 1946-7, the scope for societies for the supply of agricultural requisites is limited, because *taluka* development associations, multi-purchase and other primary societies have been taking up the distribution of seeds and manures, the hiring and supply of agricultural

implements, etc.⁴⁷² Nevertheless, the Conference of District and *Taluka* Congress Committees held at Bombay in July 1948, accepted the goal of two consumers' co-operative stores for each *taluka* by the end of the year.

The All-India Co-operative Planning Committee recommended a consumers' society on the Rochdale model for every town with about 5,000 population, federations of about 50 conveniently situated urban and rural consumers' societies and a Provincial Consumers' Society, all subsidized by the Government for half the cost of working for the first five years.⁴⁷³ But the Committee emphasized that 'ultimately the co-operative consumer movement is to be based everywhere on independent societies functioning in each area', a locally owned society commanding a greater degree of loyalty and more democratic control than a branch of an outside institution. The central societies proposed offer the opportunity for savings from wholesale operations, efficient staff, etc.⁴⁷⁴ For village primary societies having a stores section the Saraiya Committee recommend that it be distinct from the credit section, that it should deal only in commodities in daily demand and after a careful estimate of probable demand based on established needs, or, better still, on indents.⁴⁷⁵

Because of the opposition of vested interests, Shri A. K. Yegna Narayan Aiyer has suggested that rural purchase and sale societies should in their distributive phase take up the supply of improved implements, manures, seeds and spray materials, ordinarily supplied by the Agricultural Department and not stocked by the general merchant.⁴⁷⁶ So long as the supply of agricultural requisites is in question, this is sound policy. But when it comes to the stocking of consumer goods, the stimulation of artificial demand in the impoverished rural folk is a danger to be guarded against. To offer additional and unnecessary commodities in the country stores is only to discourage thrift and encourage indebtedness.

There are various specialized types of stores, like the co-operative pharmacies in Bangalore (Mysore) and in Orissa,⁴⁷¹ and the Indian Medical Practitioners' Stores and Pharmacy in Madras, which in 1946-7 had sales of Rs 1,12,525, manufactured Indian medicines worth Rs 86,433 and showed a net profit of Rs 25,006.⁴⁶⁷

A fairly recent development to benefit a humble class of workers in Bombay was the formation of a dhobies' (washermen's) consumers' co-operative for the procurement of the necessities of their trade at reasonable rates.

The All-Coorg Teachers' Co-operative Stores, specializing in stationery and with a printing-press adjunct and several teachers as sub-agents, made a net profit in 1946-7 of 85.3 per cent of its share capital of Rs 3,397.⁴⁷⁷

Students' stores having the benefit of faculty supervision are quite numerous and quite generally successful on a modest scale. In Baroda a students' store in 1944-5 made a profit of Rs 5,252.⁴⁷⁸ Such societies are recognized as of value in furnishing training to the students who administer them under direction. The Travancore Co-operative Committee declared that every college and high school if not middle school in the State should have its own store.⁴⁷⁹ Such stores, if successful, are of course the best sort of propaganda for Co-operation.

The need for federation of primary stores was recognized in connexion with the recent great expansion, and steps have been taken in many places to meet it. Travancore had in 1945-6 a central wholesale or marketing society and one was started in that year in Cochin.⁴⁸⁰ Travancore had also 148 pure distributive societies which were expected to survive the emergency period, but the Registrar did not anticipate that the 761 credit societies which had been distributing controlled articles would continue to do so.⁴⁸¹

In Mysore, the Provincial Marketing Society functioned as the wholesale society.⁴⁸²

In Bombay in 1946-7 there were 515 co-operative stores with total purchases of Rs 592.2 lakhs, total sales

of Rs. 600·2 lakhs and a profit of Rs 766,911. Over one-third of the 3,956 rural distribution centres for rationed commodities in that Province on 30 June 1947—1,369—were managed by co-operative societies. The federation of primary societies, however, went until recently very slowly there, in spite of considerable agitation for it. The Provincial Marketing Society functioned as the wholesale distributor of rationed commodities to some of the co-operative societies recognized as authorized retail distributors under the Government Rationing Scheme, but of Bombay's over 7,000 societies of all types, only 291 have joined the Provincial Society. Only Ahmedabad and Belgaum Districts had federations of consumer societies when the Bombay City and Suburbs Co-operative Consumers' Conference was held in March 1946. The organization of federations of purchase and sale societies was, however, a line of effort in Bombay in 1946-7, and one such federation had been registered soon after the close of that year.⁴⁸³ A federation of consumers' societies in Bombay has since been formed.

In Madras, between 1941-2 and 1946-7, the number of District wholesale or central stores increased from 8 to 22,⁴⁸⁴ but most of their sales were to private merchants, doubtless largely in connexion with rationed commodities. They were not able to supply in bulk at competitive prices all the goods the primary societies required and the Registrar remarked in his report for the latter year, 'The sooner they address themselves to this task, the better for them and the future'.⁴⁸⁵ It is not surprising in these circumstances that the proposal for a central wholesale society was adjudged premature.⁴⁸⁶

Departure from the proven Rochdale principle of selling at market rates has been not uncommon and would seem unjustifiable, especially where stores are open to non-members. In any case, selling below the market price, by reducing the rebates to members in terms of volume of purchases, weakens the strongest material

incentive to member loyalty. One occasionally comes across a curious divagation from pattern in a Registrar's report, as in the statement that the fair price and ration shops in Cochin had given free rations for a day or two to all ration card holders, 'whether they happened to be members or not', a gesture highly appreciated by the public. Perhaps it was a good investment, irregular as it seems, for the gross profits of these shops rose from Rs 45,455 in 1945-6 to Rs 167,874 in 1946-7.⁴⁸⁷

The United Provinces Registrar remarked in his report for 1944-5, published in 1947, that co-operative stores in that Province had not yet adopted the principle of giving a rebate on purchases. Many had, however, done well. Their total volume of business was Rs 178 lakhs. There were 8 central consumers' societies for the 159 primary stores and, though there was no Provincial Stores Federation, the Provincial Marketing Federation had opened its membership to the consumers' stores and was trying to help them. That Federation, through its 16 branches and about 200 depots, was itself responsible for nearly half the distribution work. It worked both as wholesaler and retailer of nearly the whole of the Province's sugar, cloth, oilcake, salt, vegetable *ghee* and yarn.⁴⁸⁸

Even with the encouragement which war and post-war conditions gave, however, the success of co-operative stores has been far from uniform. Most of the stores proper in Coorg, for example, are reported to have worked at a loss in 1946-7.⁴⁸⁹

Mr F. W. Wace remarked in 1939 that the traders' narrow margin of profit left little benefit for co-operative societies, which inevitably had working expenses and found great difficulty in securing managers who combined honesty with efficiency. He saw no prospect of much development of these societies in the near future.⁴⁸⁹ That was on the very eve of the war and the unpredictable spread of co-operative stores over the country. It remains valid, however, as a long-term pronouncement.

How many 'war-baby' co-operative stores will long survive the discontinuance of Government controls is problematical. So is the question of how much effort it is worth putting on their cossetting, if the traders' profit is indeed so narrow. The retail trader may sometimes use false weights to supplement his legitimate gains, but he offers credit and other conveniences, such as sometimes calling for his orders, on none of which grounds can the co-operative societies meet his competition. He is also often the village money-lender whom it does not pay to offend until co-operative credit as well as consumer co-operation is firmly entrenched in the locality.

Schultze-Delitzsch called consumer co-operation 'the foundation of the co-operative structure', and it may well be so in countries like England, where there is a large working class which is fairly well paid. This condition unfortunately is not found in India or Pakistan, where the potential economic advantages of consumer co-operation among the great masses of the people seem proportionately small. It must be remembered that the clientele of the Triplicane Stores is drawn largely from the middle class.

If the commercial service is on the basis of cost plus a reasonable profit and if dishonesty is controlled by private and official vigilance, why should consumers' societies in those lines be necessary? The remedy for the alleged resort of some retail grain and other merchants to sharp trade practices lies in official regulation, not in setting up co-operative societies to compete, in an unprofitable line, with honest methods and perhaps necessarily higher prices. The cost in money and to the reputation of the Movement which is involved in starting unnecessary societies only to have them die a lingering death should prompt caution in this phase of co-operative effort where the chances of permanent success seem slight. Certainly the field for the amelioration of conditions through co-operation is sufficiently

wide without attempting to compete where no appreciable saving can be hoped for.

Purchases on indent, by credit or multi-purpose societies, each member being committed to taking what he has ordered, may after all solve the members' procurement problems for staples, while avoiding risk. It will be well if the consumers' societies which appear to have slight chances of survival are wound up voluntarily while they are solvent.

The failure, with large losses to the philanthropic sponsors, of a large co-operative wholesale and retail establishment in Bombay some twenty years ago, before there were enough retail stores to support it, holds its warning for the future, when the number of primary consumer stores is only too likely to shrink. If so, the superstructure, where wholesale societies are functioning, is bound to become top-heavy. And if competition with retail traders is fundamentally uneconomical, even the advantage of a steady source of supply at reasonable rates cannot save the primary societies or their source of wholesale supply.

The decision in 1948 to bring co-operative consumers' societies prominently into the distribution of rationed cloth under the newly reimposed Government controls, a line in which unregulated profits had been large indeed, offers, from one point of view, a new lease of life to these societies, while from another it increases the risks of inexperience. Cloth sale societies have, however, made a good record in Orissa, where seven worked satisfactorily on a strict cash basis in 1945-6,⁴⁷¹ so there is hope that cloth societies elsewhere may with proper guidance rise to the necessary level of efficiency.

Industrial Societies

No one questions the need of the Indian craftsman for help under the conditions brought about in the traditional

handicraft industries by the increasingly keen factory competition. The majority of workers in these industries live in miserable conditions, whether in city or in village, illiterate and often heavily indebted. The MacLagan Committee pointed out in 1915 the poverty of the largest industrial group, the weavers, and said that 'any method by which the cottage industries of the country can be preserved would deserve a prolonged trial'.⁴⁹⁰

Handloom weaving today engages over 2·4 million workers and supports nearly 10 million people.⁴⁹¹ While to some extent a subsidiary industry, weaving is the chief means of livelihood of most weavers. It is more an urban than a rural profession.

The first twenty years after registration under the Act was thrown open to artisans' societies for purposes other than credit were largely barren of serious or far-reaching results. Numerous reasons have been assigned for this, ranging from the artisans' ignorance and poverty to seasonal demand for some products and inadequate financial support of the co-operative undertakings, but the real reason lies deeper. In effect, this phase of the Co-operative Movement had been expected to stem, without preferential legislation, the rising tide of economic advance and had invited on itself the embarrassment of King Canute. The industrial revolution was slow in reaching the East, but its progress, if somewhat more gradual than in the West, will doubtless, if the enthusiasm in high circles for the industrialization of India has a free rein, prove as irresistible. Handloom products represent only about 31 per cent of the total recent production of cotton cloth.⁴⁹¹ In the United Provinces, for example, the share of handlooms in total cloth production fell from 60 per cent in 1901 to 29 per cent in 1939.⁴⁹²

The small craftsman engaged in the production of goods for which a generally acceptable machine substitute is available, must sooner or later succumb to the pressure

of factory competition unless he produces for local consumption as under the old village set-up, as advocated by Gandhiji and those of his followers who oppose large-scale industrialization. There will always, of course, be a certain demand for hand-made fabrics and *objets d'art*, and more than enough craftsmen to meet it will survive, no doubt. But in the absence of far-seeing supplementary legislation, Co-operation can at best mitigate the rigours of the situation until the rest of the independent producers bow to the inevitable and join the ranks of factory labour or turn, as so many have done already, to the overcrowded land. Shri J. C. Kumarappa reports skilled weavers found breaking stones for road-making for a meagre livelihood.⁴⁹³ Radical and permanent stabilization of the small industries and amelioration of the condition of their workers as a class depends in no small part upon the active support of the Government to the weaker party in the unequal contest. Regulation of competition between large-scale and cottage industries, acutely necessary for the handloom weavers, is required also for other industries, e.g. that of the tanners and leather workers, etc. The handloom weavers, for example, could be given a monopoly of the production of certain lines of cloth, priority in the allocation of yarn, etc.

The Bombay Economic and Industrial Survey Committee (1940), of which Sir Purshottamdas Thakurdas was the Chairman, urged upon the Government the obligation actively to support and encourage these industries and to organize them upon co-operative lines.⁴⁹⁴

Fortunately, the need of safeguards where necessary against intensive competition was recognized by the Central Government of the Indian Dominion in the formulation of its industrial policy, presented to the Dominion Parliament on 6 April 1948. It was announced on that occasion that the Industries Conference's recommendation for the establishment of a Cottage

Industries Board had been accepted and that a directorate for fostering small-scale industries would be set up within the Directorate-General of Industries and Supplies, with the favouring of Co-operation as a main objective.

The co-operative societies, Sir C. P. Ramaswami Aiyar said on 19 December 1945, at the opening of the Travancore Central Cottage Industries Society, 'have a great part to play in helping the village artisan by giving him the necessary raw materials, collecting his finished articles, advancing him some percentage of their value outright pending the sale of the goods in the open market on advantageous terms, and insisting on and guiding him in respect of latest designs, colour, finish, pattern, etc.' The Co-operative Movement, he added, must enlist the services of experts conversant with market trends, trade channels, prospective markets and the changing tastes of consumers.

The weavers' group is highly sensitive to general economic ups and downs. It was one of the groups hardest hit by the depression.⁴⁹⁵ The weavers' income was somewhat improved through the war-time scarcity of foreign cloth,⁴⁹⁶ but this relief was temporary.

Efforts in the past to ameliorate their condition through co-operative effort have often been discouraging. A loss of Rs. 80,000 was involved in the failure of one weavers' society in Bihar and Orissa.⁴⁹⁷ Reading between the lines of earlier reports of Registrars, one suspects a readiness on the part of some to wash their hands of the weavers as an almost hopeless lot.

The incompetence of small men to manage large enterprises has apparently in some cases been to blame for failure. The Cawnpore Knitting and Weaving Society, for example, seems to have been several sizes too big for efficient handling by those responsible. It had taken large loans. Its board of management was superseded from January 1944 to February 1945, while the tangle into which it had got its affairs was straightened out by the United Provinces Co-operative Department.

THE CO-OPERATIVE MOVEMENT IN INDIA

The reinstated committee, however, proved still unable to manage the society's affairs and it suffered heavy losses.⁴⁹⁸

Irresponsibility, addiction to drink and improvidence have been charged against the illiterate and poverty-stricken group of weavers, augmenting the difficulties caused by their economic situation, the occasional acute shortage of yarn, and the dependence of most of them upon their rivals, the mills⁴⁹² or the master weavers. The latter often supply the raw materials at high prices, pay too little for the finished products and desert their weavers when demand is slack. Quite understandably, the master weavers are reported not friendly to the co-operative societies.⁴⁹⁶

In a number of Provinces central organizations have made an important contribution to such success as has attended the industrial societies' working. The Provincial Weavers' Co-operative Society in the Central Provinces and Berar is a marketing society, under the supervision of the Director of Industries. The Central Handloom Weavers' Society in Travancore has special departments for dyeing, screen printing, etc.⁴⁹⁹ In the United Provinces the Provincial Co-operative Industrial Federation had affiliated to it in 1944-5 twelve central textile purchase and sale societies and 107 primary textile societies.⁵⁰⁰ The Provincial Industrial Co-operative Association in Bombay, which started functioning in December 1946, handled a large volume of business but ran at a loss of several thousand rupees both in that year and the next. In 1947-8 the Association handled yarn distribution, prepared schemes for the development of industrial societies of different types, organized a number of societies through Honorary Organizers, supplied societies with raw materials and, in some cases, credit, and sold their finished goods, gave technical advice and help in maintaining accounts, and trained secretaries and organizers in collaboration with the Provincial Institute. Its ambitious programme of

work for 1948-9 called for the raising of a capital of Rs 25 lakhs.

A Provincial Industrial Co-operative Association was formed in Delhi within the last few years.⁵⁰¹ The Government of Hyderabad sanctioned in 1947 a large scheme for the co-operative organizing of weavers, the enterprise to be managed by the members' elected representatives but controlled and supervised by the Government.

The Madras Handloom Weavers' Provincial Co-operative Society gets some of the weavers' mill requirements reasonably as well as marketing their products.⁵⁰² In that Province, which leads in handloom weaving, about 18 per cent of the handlooms had been brought into the Movement by the end of 1946-7, thanks to the Government's effort to get the entire handloom industry co-operatively organized to check black marketing. An extra yarn quota of 20 per cent was offered to the weavers until 120,000 should have been brought into the societies, but the Registrar felt that it might not be possible to achieve the goal without the indirect compulsion of denial of yarn to non-members. The Madras Provincial organization had by 1942-3 built up a price fluctuation fund of Rs 230,000, in addition to a reserve of over a lakh of rupees. The Reserve Bank has suggested that other Provinces, especially Bengal where the number of weavers' societies is very large, should copy the example of Madras.⁵⁰³

In Bengal in 1944-5 both weavers' and fishermen's societies increased considerably under the Revenue Department's scheme for the rehabilitation of artisans. Bengal had more industrial societies in 1944-5 than any other Province, 1,138 of the country's 2,905, just under the total for Madras, the United Provinces and Bombay, which ranked next, taken together. There, as in the United Provinces,⁵⁰⁴ weavers benefited greatly from the war orders for textiles, not only financially, but also in training to manufacture to specifications.⁵⁰⁵ Getting co-operative society members to produce punctually and

up to sample has, however, been found very difficult, and, in the Punjab at least, many of the textiles ordered from the societies by the Government during the war had to be rejected.⁵⁰⁶

The West Bengal Provincial Co-operative Industrial and Procurement Society, governed by a Board of Directors elected by its more than 75 constituent societies, has operated on a very large scale. At the instance of the Provincial co-operative bank, which had itself lent the society 10 lakhs of rupees, the Co-operative Department made three of its officers available to the society as General Manager, Sales Manager and Stores Manager.

In the Central Provinces and Berar, the demand for the registration of weavers' societies in 1944-5 outran the opportunity to enrol them at the time, due to yarn shortage.⁵⁰⁷ In the following year the Provincial Weavers' Society there did a yarn business of Rs 10 lakhs a month and had a manufacturing section which yielded a monthly business of Rs 32,000 in handloom cloth.⁵⁰⁸

It remains to be seen how the industrial societies will fare when the measures against inflation take effect and prices fall. Meantime, Orissa's forty weavers' societies in 1945-6, the very year the war ended, were 'more or less moribund' and had declined both in membership and working capital. They were reported as being replaced gradually by production and sale societies and societies for the joint purchase of yarn.⁵⁰⁹

Reluctantly, a verdict of 'not proven' must be brought in for Co-operation being the best method from the outset of tackling the weavers' problem, at least Co-operation as generally understood and as far as present immediate and tangible benefits go. Perhaps a period of tutelage such as that provided by the *bani* system developed in Bengal years ago should precede organization on full co-operative lines, a central agency under the Co-operative Department, supplying yarn to its constituent societies and paying their members *bani* or wages for the manufacture of goods to its specifications.⁵¹⁰ The possibilities

of this system as an interim phase for societies for other full-time workers of different types might appropriately be explored.

In spite of efforts by both the Central and the Provincial Governments, the Saraiya (All-India Co-operative Planning) Committee felt in 1946 that the contribution of Co-operation to the solution of even the weavers' problems had been meagre, though some benefits had been conferred by it upon the weavers, notably in Provinces like Bombay and Madras.⁵¹¹ That its potential benefits are not to be despised may be gathered from the estimate made by the Punjab Registrar a number of years ago, that the purchase of raw materials at the lowest rate alone saved the societies of handloom weavers in that Province from 15 to 20 per cent on middlemen's charges.

A depressing picture is, however, drawn by the Punjab Registrar later in a comparative classification of industrial societies in 1939-40 and 1943-4. The number of societies (with an average membership of fifteen) had increased from 341 to 379, but while there were seven more B societies there were fifty-six more D ones, and six more under liquidation in the later year.⁵¹²

An important part of the credit for what has been achieved must go to the Government of India's generous subvention for the development of the handloom industry, available to the Provinces since early in the thirties.

Much of the work done by co-operative effort for the benefit of industrial workers has been through credit societies, already discussed. A tendency has sometimes been observed for artisans' societies proper to make the supply of credit their principal function. To guard against this the policy has here and there been adopted of restricting the loans of industrial societies to purposes connected with the industry, as in Mysore in the twenties⁵¹³ and in the Punjab during the depression.⁵¹⁴ In the United Provinces, industrial societies other than for textile workers are mostly credit societies pure and

simple, e.g. those for leather workers, lac workers, potters, etc.⁵¹⁵

Loans outstanding against industrial societies have been a serious problem. The effect of the factitious prosperity resulting from war conditions is doubtless reflected in the report that in the Punjab the debts of the industrial societies had declined from Rs 711,541 in 1942-3 to Rs 198,500 in 1945-6,⁵¹⁶ though, on the other hand, Baroda weavers' societies' outstandings had increased in 1944-5.

Few artisans, as Mr F. W. Wace explains, have tangible security and unless arrangements are made for the prompt manufacture and sale of products, it is difficult to ensure the recovery of advances.⁵¹⁷ The policy in the Punjab in the thirties was to confine advances as far as possible to raw materials, and monthly recoveries were attempted.⁵¹⁴

Finance is, however, a less difficult problem for the industrial societies now that the policy has been accepted by central and urban banks of lending on the pledge of finished products, but the Punjab has had a Central Industrial Bank and several unions financing the industrial societies there.⁵¹⁸ The Bombay Government was considering in July 1948 a Provincial Industrial Finance Corporation to finance industries, especially cottage industries. The Saraiya Committee suggested an Apex Provincial Industrial Co-operative Bank where there were no Provincial and central banks with sufficient resources. This should not be necessary, at least for short-term credit, if the Reserve Bank Act is amended as proposed to provide for loans up to one year to the Provincial Bank for artisans' societies.⁵¹⁹

The Punjab Registrar declared in his quinquennial report published in 1947 that the industrial societies had lost a golden opportunity in the war years to consolidate their position. He felt that it was, if anything, worse at the end of 1943-4 than it had been at the beginning of 1938-9. Lack of experience and ignorance, not only

of business methods but also of the fundamental principles of Co-operation (the blame for which can scarcely be laid at the members' door) were assigned as important causes. 'The direction and supervision of this side of the Co-operative Movement was also of a very poor order. There was mismanagement, inefficiency and, in a number of cases, dishonesty.'⁵²⁰ Some societies had been found to be mere paper societies, consisting of an employer and his employees. That the field staff had not reported this fact, it was suggested, pointed to their own ignorance of what Co-operation really meant.⁵²⁰ The blind have been leading the blind to a deplorable extent in the Indian Co-operative Movement, the blame for which rests squarely on the failure to get expert guidance where necessary and to educate the lower-paid staff properly in co-operative principles. The right type of worker has not always been forthcoming. As Shri M. R. Bhide pointed out in that report, the rural outlook and sympathies, formerly stressed for workers, required to be altered, in respect of industrial societies of urban type, in favour of an urban outlook with the necessary business acumen.⁵²⁰

The training aspect generally has not been sufficiently to the fore, though efforts in that direction have, of course, been made, as in the Punjab, where in 1945-6 the dyeing demonstration party of the Industries Department gave a course for weavers⁵²¹ and industrial classes were held in domestic science, cottage industries, knitting, soap-making, etc.⁵²²

In Madras in 1945-6 the Provincial Co-operative Bank granted a subsidy for the development of cottage industries, out of which instructors were appointed to train workers in the manufacture of leather goods, baskets, coir products, etc.⁵²³

Training is an aspect of the co-operative effort in which the closest working together of the Co-operative and Industrial Departments is of the first importance, not only for training but also for supervision, though divided authority is hardly in the interest of harmonious and

efficient efforts. The responsibility should rest on the Co-operative Department primarily, but, as recommended years ago by the Bengal Banking Enquiry Committee, the inspection staff for industrial societies may well be composed of men trained in the Department of Industries.⁵²⁴

The Madras Co-operative Department has special supervisors for the primary weavers' societies and others of special types, and these are charged no supervisory fees. Audit also is free for weavers' societies for their first six years, and for other non-credit societies for their first three. The audit fee is waived also for other small societies working at a loss.

The same difficulties on the management side as in the weavers' societies have been encountered in those for other artisans. It is unquestionably hard for workers living so near the margin of subsistence and with so few ordinary comforts, to say nothing of luxuries, to take the long view and forego present profits in the interest of an abstract reserve fund. A silver workers' society in Bombay illustrates the danger. During a boom period several thousand rupees had been accumulated as share capital. In a succeeding period of depression, the workers continued to vote themselves liberal wages which conditions in the trade no longer justified. Their capital was all paid away as wages and finally the society had to be dissolved.⁵²⁵

Sales depots are important for the disposal of the industrial societies' products. The Cottage Industries show-room in Bombay is very large and has a varied and attractive display. Special efforts have been made, as in the Punjab, to exhibit such products at sales and fairs.⁵²⁶ A combination sales and tea-room was opened by the new Assam Co-operative Industries Association in October 1948.

The other small-scale industries besides weaving which are generally unsuitable as subsidiary occupations for the agriculturist, because carried on chiefly in workshops and

for other reasons, include the production of agricultural implements and other tools and metal objects of domestic use, brass and bell-metal work, pottery and glass making, and tanning, restricted under the present artificial standards to a group enjoying slight social prestige. *Chappals* (sandals) worth Rs 1,000 were manufactured and sold in 1945-6 by one depressed class society in Mysore.⁵²⁷ There are also printing societies in Madras, Bombay and elsewhere, which have been doing quite well.

The Sahakari Prakashan, Ltd., of Bombay, an enterprising co-operative society with some distinguished members on its advisory board, does printing, publishing and book-selling, issuing a monthly bulletin of its Books Section—*Booco-op*. In contrast with the Radhanath Co-operative Press at Cuttack, its press workers are, however, not members but employees. The Orissa Registrar reported that during the prolonged strike of press workers at Cuttack for higher wages, the co-operative press, whose workers were themselves the proprietors, was the only one that continued to work. It had earned a profit of Rs 1,652 in 1945-6.⁵²⁸

It seems of dubious wisdom to try to introduce machinery on a large scale in connexion with most of these industries. The Saraiya Committee, along with many excellent proposals for their strengthening and their rehabilitation, proposed the introduction of electric motors and equipment.⁵²⁹ Apart from the fact that power looms have been found uneconomical, at least in the United Provinces,⁴⁹² the same consideration applies here as to the mechanization of agriculture. Increased output per man spells inevitably reduced employment and, from the standpoint of national well-being, work for all is no less important than increased output. As Shri V. L. Mehta pointed out in a lecture at Bombay on 6 January 1945 on 'Cottage Industries in National Reconstruction', unemployment is a primary problem in

India. Any lasting solution would have to provide work for all so that idleness was eliminated and the demoralizing influence of doles and unemployment benefits avoided. In most Western countries they said 'Industrialize or perish'. The alternative, he said, was to place before ourselves the ideals of self-sufficiency, contentment, and work of a creative type, and ask which we would prefer of the two aims. Cottage industries not only gave full play to the creative instinct and could ensure equitable distribution; they fostered the sense of responsibility better than work in large factories, and in co-operative organizations members of cottage industries societies learned valuable lessons in citizenship and business methods.

The sage advice of the MacLagan Committee unfortunately has not in general been followed, i.e. that

attempts to reorganise village industries on a more profitable basis should not be undertaken sporadically or fortuitously. To avoid mistakes which may well plunge small craftsmen into still deeper difficulties than now, it is very necessary that a systematic inquiry should be made . . . into the economic conditions of any industry that may be taken up.⁴⁹⁰

Surveys of specific industries to determine which are the most promising for co-operative assistance form part of the Saraiya Committee's plan in connexion with the Regional Promotional Agencies which it recommends,⁵³⁰ recognizing, however, that even small-scale or cottage industries not economically promising may have to be helped as long as their workers have not found alternative employment. Standard schemes have been prepared for several industries by the Provincial Industrial Co-operative Association in Bombay, which, however, is concentrating its efforts at first on the organization of societies for tanners and leather workers, for workers in wood, iron and other metals, and for women workers.

Difficulty had, however, been experienced in getting existing societies affiliated to the Provincial Industrial

Association, just as in the case of the Provincial Marketing Association in that Province.

The first Industrial and Village Industries Conference to be held in Bombay and perhaps anywhere in India was held at Poona late in 1946. A number of primary and subsidiary occupations were selected by that Conference for development. Bombay has a Joint Registrar for Industrial Co-operative and Village Industries, and has sanctioned his granting generous loans and subsidies to industrial co-operatives for the purchase of tools and appliances, subject to a total maximum, however, of Rs 325,000 in 1948-9, including guarantees to the central financing agencies on behalf of such societies. The limit of the Government guarantee in each case is Rs 10,000—Rs 5,000 for working capital and Rs 5,000 for the purchase of tools and equipment.

The Co-operative Departments are faced with a dilemma in connexion with the fostering of the secondary occupations which are admittedly so essential if the great agricultural population is to do more than eke out a bare subsistence, unless these are confined to such strictly non-industrial lines as goat, sheep, and cattle breeding, dairying, poultry farming, apiculture, fishing, and work for other cultivators. Fostering weaving as a subsidiary occupation for agriculturists, for instance, as the Bihar and Orissa Banking Enquiry Committee pointed out, must mean further competition for the professional weavers, 'who are in no such sound an economic state as to bear additional competition over and above the subsidised competition of the mills'.⁵³¹

Dewan Bahadur H. L. Kaji in his lecture at the International Co-operative School, Prague, in September 1948, held that the best subsidiary occupations for the farmer were those normally arising out of his calling. Paddy must be husked and rice hand-pounded; wheat must be converted into flour, raw cotton must be ginned and pressed into bales, ground nuts must be shelled and crushed for oil and oil-cake.⁵³² The hand-pounding of

rice alone, if the Government would only make the move of banning rice-mills in the interest of better health and nutrition, would furnish suitable subsidiary employment for an army of agriculturists and their families. Cattle, sheep and goat breeding, dairying, including *ghee* production, poultry-raising, bee-keeping, the processing and preserving of fruits and vegetables, are all supplementary industries that fit harmoniously into the farm pattern and have the added advantage of avoiding competition with the already hard-pressed full-time industrial worker. Dewan Bahadur Kaji believes that only alternatively should small subsidiary industries unrelated to the farm pattern be taken in hand, spinning primarily but also basket-making or rope-making. The making of brooms, matches, soap, toys and paper offers still other possibilities.

Dairying and breeding societies will be considered with the Better Farming group, but pisciculture may be taken up here as the Provincial Co-operative Industrial Association in Bombay considers fishermen's societies as coming within its purview, though little has yet been done there in this large field. Madras and Bengal have fishery societies, and the United Provinces a few years ago introduced a scheme for supplying fresh fish to a few large towns, on the basis of the experience with which it was proposed to organize fishermen's societies.⁵³³ In general, however, co-operative progress in this important food line has been halting.

The Fish Sub-committee of the Agricultural Policy Committee, appointed in 1944, concluded that no real advance was possible unless the Government accepted the responsibility for placing the backward and largely neglected fishing industry as a whole on a firm foundation and for giving it both direct and indirect assistance, as most Western countries and Japan had done. This recommendation the Saraiya Committee underwrote, recommending that state aid be given largely through co-operative societies, the state providing cold storage and

transport facilities and giving loans at a low rate or subsidies for improved types of craft and gear, which the fishermen, both inland and marine, were obviously too poor to finance.⁵³³ The stocking of nets and boats for fishermen's hire has also been recommended as a useful co-operative activity.⁵³⁴

Summing up the experience with fishermen's societies up to 1934, the Travancore Co-operative Enquiry Committee mentioned that in Bihar as 'hopelessly disappointing' and that in Madras as not encouraging, though there was still hope there. In Cochin, also, in spite of modest progress in membership, working capital and total transactions, the Registrar had reported such societies 'as difficult of improvement as the societies for the depressed classes'. In Travancore itself the fishermen's societies had deteriorated, but the Committee saw 'a great future for this industry with the help of the Co-operative Movement', given better inspection and audit.⁵³⁴

The fishermen's society at Aroor in that State had got twice as much as other fishermen for their catch, but had been forced to abandon the attempt to avoid middlemen's charges by the threats of the local merchants, the fishermen's creditors, to sue the men.⁵³⁵ Thus among fishermen we find the same story of dependence upon middlemen creditors and the latter's opposition to co-operative efforts, as also, alas, the difficulty of overdues, which in the Punjab amounted for such societies in 1937 to 96·4 per cent of loans outstanding, particularly disappointing in view of the Registrar's enthusiasm in his report for 1920-21 about their working when first organized. In Orissa in 1945-6 the fifty-five fishermen's credit societies had overdues of Rs 26,000 out of loans of Rs 28,000 outstanding; only Rs 2,000 was advanced during the year and Rs 5·5 collected! Steps were being taken to wind up these societies and to replace them with non-credit societies.⁵⁰⁹

Egg production and sale societies, an industry claimed

to be suitable to the poorest, are especially encouraged in Madras, through recurring subsidies to each and free supervision by a special staff, but they are also found in other Provinces.

Better Farming Societies

Besides the better farming societies so-called, several groups seem to fall properly in this category, including societies for the consolidation of land-holdings, for irrigation and land reclamation, collective farming societies, societies for cattle and sheep breeding and dairying societies.

Better farming societies proper aim at the adoption by their members of better agricultural methods, the supplying of good seed and improved agricultural implements, and the demonstration and encouragement of improved practices. They are in many cases multi-purpose societies in fact, creating funds from subscriptions, donations and deposits⁵³⁶ for loans for approved purposes, with purchase and sale activities as well. In the Punjab, which has the largest number of such societies, 261 with 5,969 members in 1945-6,⁵³⁶ the distribution of improved seed and agricultural implements has been a major activity.⁵³⁷ The work of the cane growers' societies in the United Provinces and in Bihar, which falls partly in this category, has been discussed in connexion with marketing societies, as have the various other societies centring round the supply of a single product. The growers' associations in the Central Provinces and Berar, which in 1944-5 had a working capital of Rs 11.6 lakhs and profits of R 99,799 seem also to be of this type.⁴⁰⁰ Bombay had, in 1946-7, 76 better farming societies, which the Co-operative Department had decided to provide with trained agricultural assistants as secretaries.⁵³⁸

The 120 *taluka* development associations in Bombay,⁴⁷² the development associations in Baroda and the agricultural improvement and demonstration societies in

Madras do similar work. The United Provinces is understood to be converting its better farming societies into marketing and development unions, but the functions of these are not dissimilar.⁵³⁶

Expert advice from the Agricultural Department is as necessary to the success of agricultural improvement societies as advice from Industrial Department experts is to that of industrial societies. Where little attention can be given them, for want of sufficient staff, as in Kashmir, such societies have done practically no work.⁵³⁹

Better farming societies are on a limited liability basis. The area may be one village or a group of villages. Members have to agree on joining to adopt such improved agricultural methods as the society may decide upon at a general meeting.⁵³⁶

One of the most beneficial aspects of the Co-operative Movement has been claimed to be that concerned with the consolidation of land holdings. The serious evils of fragmentation of rural holdings in a country of small estates where there is no rule of primogeniture have been mentioned. As early as 1921 the Punjab undertook to meet them by co-operative effort and by the end of 1945-6 over one and a half million acres had been consolidated.⁵⁴⁰ Over a million acres had been consolidated in the Central Provinces and Berar by 1946.⁵⁴¹ There has also been activity in this line in the United Provinces⁵⁴² and in Kashmir, where this has been the most important agricultural co-operative activity next to credit,⁵⁴³ in Madras, in Delhi, in the North-West Frontier Province⁵⁴⁴ and in Baroda⁵⁴⁵ and Hyderabad.⁵⁴⁶ The cost per acre ranged from Re 1/8 in the United Provinces in 1944-5⁵⁴² to Rs 9/4 in the North-West Frontier Province in 1945-6.⁵⁴⁷

Village improvement work of various types, the sinking of wells, the laying of roads, etc., has commonly been undertaken in connexion with the co-operative consolidation of holdings. Societies for the consolidation

of holdings cease to function as soon as their work is done, but its benefits are so palpable as to have made its beneficiaries more receptive, it is claimed, to Co-operation as a solution for other economic and social problems.⁵⁴⁹ So valuable, in fact, were the benefits of co-operative consolidation felt to be as propaganda for Co-operation generally, that Mr. F. W. Wace in 1939 called the provision of free consolidation by the Revenue Department's staff a stab in the back of co-operative consolidation.⁵⁴⁹

The most undesirable feature of this activity, from the standpoint of co-operative principles, is the compulsory feature which has marred it in the Punjab, the Central Provinces, the United Provinces and Baroda, where consolidation is undertaken if a certain proportion of the villagers, from one-half to two-thirds, owning from two-thirds to three-fourths of the land, agree to have it done.⁵⁴⁵ The present writer does not believe in what the Reserve Bank calls 'judicious compulsion' under the co-operative banner and welcomes rather the enactment in 1947 of the Bombay Prevention of Fragmentation and Consolidation of Holdings Act, which provides where necessary for the official checking of fragmentation below the minimum area that has been determined to be cultivable separately, and for compulsory consolidation by a Consolidation Officer under a prescribed procedure designed to safeguard the interests of all concerned. The state can appropriately, under a democratic régime, do in the common interest what co-operative effort can accomplish only by a denial of its fundamental principles; where voluntary consolidation cannot be effected, the co-operative societies should keep out of it.

Sir Edward Maclagan called irrigation 'a touch of Midas for Indian soil'.⁵⁵⁰ It is, of course, a very large factor in increasing yield per acre.⁵⁵¹ We have seen some of the valuable contribution that has been and is being made by the great irrigation projects in different parts of the country, the Rampad Sagar scheme near Rajahmundry, the hydro-electric and irrigation scheme

in the Andhradesa, the Damodar Valley scheme in Bengal and Bihar and the Mahanadi scheme in Orissa, to mention but a few. The Saraiya Committee suggested that much of the field work connected with the distribution of water from state irrigation projects could be turned over to co-operative societies.

Co-operative effort normally finds its role in connexion with irrigation in projects which may be within the means of a group but are beyond those of the single cultivator, such as the digging of wells, the clearing of silt from irrigation channels, erection of small dams, etc. Co-operative irrigation societies in some areas in Bengal, which has over a thousand such societies, are said to have 'changed the whole outlook of the people and strengthened their general economic position'.⁵⁵² The United Provinces had 143 irrigation societies in 1944-5⁵⁵³ and Madras 18.⁵⁵⁴ The Government of Indore in 1946-7 sanctioned Rs 18,000 for an experimental irrigation society.⁵⁵⁵ In the North Arcot District of Madras, a co-operative electric motor and power pump society supplies pumps to its members, purchasing them wholesale and recovering the cost in instalments over about seven years.⁷⁴ At Avasari Khurd, a village in Poona District, a dam 100 feet long and 30 feet high was constructed in 1946 by the co-operative effort of the villagers themselves. It was stated that the dam would hold nearly 2,260,000 gallons of water and would irrigate more than 1,500 acres. The Saraiya Committee's verdict was that irrigation societies had not been very successful so far but had indicated the possibilities.⁷⁴

Closely related to the irrigation societies are those for land reclamation. There have been many such societies in low-lying areas of Bengal, their purpose being to construct embankments to keep out flood water.⁵⁵⁶ An embankment society in Orissa, described in the Registrar's report for 1945-6, had erected by the members' labour large embankments with sluices, the landlord of the estate contributing nearly half the cost.⁵⁵⁷ The

Punjab in 1943-4 had 145 land reclamation societies with 2,139 members and also, erosion having progressed threateningly in that Province, 274 'cho' reclamation societies with 10,237 members, 'cho' lands being those eroded by hill torrents.⁵⁵⁸ The bunding of fields to prevent erosion is another activity that lends itself well to co-operative effort.

Societies for the protection of crops against wild animals, etc., by fencing, the construction of walls, or the engaging of watchmen are a feature in Bombay, which in 1944-5 had 55 such societies with 15,027 members, the area protected totalling 155,736 acres.⁵⁵⁹ The demand for such societies was growing as their value was recognized.

Societies for cattle breeding are more important than numerous in the Indian peninsula, which has been estimated to have one-third of the world's total cattle wealth, including some among the world's finest cattle for tropical and subtropical regions. Partly because proper attention has not been paid to breeding for milk production as well as for draught purposes, the milk production is very far short, however, of the need for *per capita* consumption. It may be mentioned incidentally that of the 21,000,000 tons estimated a few years ago to be the annual production, only 27 per cent is used as whole milk.⁵⁶⁰ Co-operative societies which take up the supply and distribution of milk must do what they can to stop the present diversion of the milk needed by the children and undernourished adults of India and Pakistan into industrial channels. Some other disposition of 'surplus' milk should be found than casein-based umbrella handles.

The cattle industry faces several difficulties, of which lack of conviction of the need for scientific cattle breeding can be met by propaganda, the high incidence of cattle diseases by the provision of veterinary services on an adequate scale, and the dearth of good fodder can be corrected to a considerable extent by co-operative

societies for ensilage of the surplus grass crop which otherwise goes to waste.⁵⁴¹

The Punjab leads in co-operative cattle breeding. In 1943-4 it had 739 out of India's total of 824 societies.⁵⁶¹ The United Provinces has cattle breeding societies so-called but most of them have merely given credit for cattle purchase and done nothing in breeding or development.⁵⁵⁴ The system in Ceylon described by Mr H. Calvert, former Punjab Registrar, may offer the solution to the Indian agriculturist's draught animal problem. He writes that in Ceylon 'small owners own no cattle and grow no fodder crops; there is a class who hire out cattle and feed them; this results in an enormous saving of both cattle and land'.⁵⁶²

Such an arrangement should not be beyond the power of co-operative effort. It may be noted in this connexion that a co-operative dairy for the collective ownership and management of cattle is proposed by Shri K. S. Venkataramani in his village uplift scheme.⁵⁶³

Co-operative milk unions and rural creameries are features of the five-year plan for increasing milk production announced by the Food Minister of the Indian Dominion on 24 August 1948, as being sent soon to the Provinces for adoption, the Central Government to provide all possible help by way of technical guidance, etc.

The supply of milk is co-operatively organized in Madras, Calcutta and Lucknow,⁵⁶⁴ and, though a previous attempt in Bombay failed, the Provincial Government is reported to be planning to make its dairy colony at Aarey, on the outskirts of the city of Bombay, the nucleus of a group of milk co-operatives. Bombay dairy societies increased in 1946-7 from 14 to 30, of which 15 were of milk producers, 11 of producers and consumers and 4 milk supply unions. A comprehensive scheme for cattle breeding and milk production societies in rural areas has been planned, embodying the general recommendations in the Saraiya Committee's report.⁵⁶⁵

The Committee recommended 25 to 30 societies to a

union and the handling of pasteurizing and distribution by consumers' milk distributing societies,⁵⁶⁶ but the Fifteenth Registrars' Conference felt that separate societies for milk distribution were desirable only where no union of milk producers existed.⁵⁶¹

The Central Provinces and Berar had 11 dairy societies in 1945-6, with 278 members and sales of Rs 77,784. A Central Milk Producers' Union supplied cattle feed and concentrates.⁵⁶⁸

Rs 53·8 lakhs' worth was sold by the 269 milk supply societies of Madras in 1946-7, of which Rs 36·1 lakhs' worth was sold through the 21 milk supply unions and the rest direct to consumers. The Madras Government has given strong support to the milk societies, sanctioning a special Dairy Development Officer and staff, providing cattle feed at cost, interest-free loans for cattle purchase, etc.⁵⁶⁷

The Calcutta Corporation some years ago assisted the Calcutta Co-operative Milk Societies' Union, which has today about 130 member societies, with a grant of Rs 5,000 and an interest-free loan of Rs 50,000 for erecting its pasteurizing plant,⁵⁶⁸ which loan the Union was able to repay within a few years.⁵⁶⁹

The Saraiya Committee recommended the formation of milk producers' co-operative societies in the villages within a radius of thirty miles of towns having a population of 30,000 or more, of which there were 214. Their scheme called for about 300 milk unions to be started within five years with generous state support.⁵⁷⁰

Almost the only bright spot on Bhopal's co-operative horizon seems to be the draught cattle supply societies, which in 1944-5 had 851 members and had supplied them with 1,334 bullocks, with the result that 16,434 acres of waste land had been brought under cultivation.⁵⁷¹

The Saraiya Committee also recommended co-operative societies for sheep breeding in the north-west and other hilly regions where sheep are bred on a large scale.⁵⁷² Madras has done a little with co-operative

sheep breeding,⁵⁷³ as also the North-West Frontier Province.⁵⁷⁴

Joint cultivation and land colonization schemes form the last major group of co-operative societies in the Better Farming category. Colonization schemes for the depressed classes will be referred to in connexion with co-operative efforts in general on their behalf, but we may mention here the 26 land colonization societies for the landless poor in Madras at the end of 1946-7, of which 24 were under the Co-operative and the other 2 under the Revenue Department. Out of the 10,701 acres assigned to these societies, 8,891 had been brought under cultivation, in spite of the handicaps of lack of irrigation facilities, poor soil and malaria. Well-digging, children's education, arbitration, thrift encouragement, the joint purchase and distribution of domestic and agricultural requirements, and the encouragement of subsidiary industries were among the lines of effort in connexion with these societies.⁵⁷⁵

Travancore had ten land colonization and joint farming societies in 1945-6,⁵⁷⁶ and in 1946-7 Bombay had ten joint farming societies.⁵³⁸ The Central Provinces had in 1945 only two better farming or co-operative cultivation societies, both looked after by an Agricultural Department officer.⁵⁷⁷ In the Muzaffarpur experiments in co-operative farming described by Rai Bahadur R. K. Prasad, Bihar Registrar, in *Indian Farming* for February 1946, land ownership is retained but voluntary contracts are signed, turning over the lands to the societies for co-operative cultivation under a sub-committee with the guidance of the Co-operative and Agricultural Departments. The services rendered by each are taken into account in the profit distribution.

The Matsya Union scheme, announced as one of the largest co-operative farming experiments, if not the largest, to have been undertaken in India, was launched in July 1948. Refugees from Pakistan were to be settled

on 150,000 acres in that new Union of Indian States, one tractor and two pair of bullocks being provided for each 500-acre block. The initial expenses were announced as being borne by the Matsya Union Government, except for the tractors and expert staff, which the Ministry of Food of the Government of India was to provide.

The co-operative fruit garden colony scheme in the East Punjab for people of education and some means is another recent development.⁵⁷⁸

The Saraiya Committee analysed at some length the different types of co-operative farming societies and recommended for each District at least two better farming societies with state aid for staff and state loans, and two demonstration co-operative joint farming societies, the state to meet the entire expenditure on their establishment and to guarantee, if necessary, the required loans from a central or land-mortgage bank.⁵⁷⁹ In this type of society the small owners would pool their land and work under an elected committee and its appointed manager. Dividends would be in proportion to the value of the land of each. The produce would be sold collectively and, after the payment of wages, payment for the use of land and the cost of management and the setting aside of the reserve, the profits would be shared in proportion to the wages earned by each. Members might withdraw, paying the cost of any improvements made on their land by the society.⁵⁸⁰

The Co-operative Planning Committee is to be congratulated on its rejection of the features of state control and irrecoverable loss of ownership in the joint farming societies which it recommends. Sir V. T. Krishnamachari, in his Presidential Address on 11 April 1948, at the Bombay Provincial Co-operative Conference, said emphatically that collective farming on the Russian pattern was unsuited to Indian conditions, which were entirely dissimilar. India could not stand a shock of this character to her economic system.⁵⁸¹ This applies equally to Pakistan.

The report on *Collective Farming in Bombay Province* (1947) recognizes as difficulties in the way of joint cultivation its novelty, the farmers' attachment to their own holdings and their suspicion of change.⁵⁸² The Indian's independent spirit and his litigious tendency might have been added—and joint farming projects offer endless occasions for dispute. The conclusion reached in that report was that generally better farming societies are better suited to the agriculturists' present psychology.⁵⁸²

The recommendation of the Fifteenth Conference of Registrars that a delegation including a representative of the Co-operative Movement be sent to the U.S.S.R. to study the working of collective farming there¹⁹² might better have been to study the Jewish Histradut settlements, where remarkable results have been achieved in collectivization without the sacrifice of democratic principles.⁵⁸³

Sir Manilal B. Nanavati feels that 'owing to the difficulties and the delay involved in starting co-operative farming societies . . . it is futile to place too much faith on this method under existing conditions'.⁵⁸⁴ Many apparently share, however, the conviction of the Hyderabad Registrar in his report for 1943-4 that 'in farming on a large scale on a co-operative basis lies the future development of agriculture and the welfare of the agriculturist'.⁵⁸⁵

It might repay the effort to see what can be done on co-operative lines in developing the idea of joint cultivation by mutual agreement on a yearly basis as found in the *lana* partnerships which had arisen spontaneously in the Punjab.* Co-operation is so largely a hothouse plant in India and Pakistan that it lacks sometimes the vigour of spontaneous growth. Where the foundation seems already to be laid full advantage should be taken of it.

A conservative attitude towards collective farming

* See p. 44.

societies on the lines so far tried seems justified by the experience in Cochin, where only one out of three such societies, the Annamalai Collective Farming Society with 224 members, has worked well. Its net profits of Rs 12,519 in 1946-7 were doubtless derived partly from the fair price shop which the society conducted at a hill station⁵⁸⁶ In Madras, 3 out of the 12 land colonization societies started since the war for ex-servicemen had had to be abandoned by 1948, having worked at a loss.⁵⁸⁷ That, however, was not a joint farming experiment proper, each man receiving a plot of five acres of wet or ten of dry land and cultivating his own block with such help as the society might provide.

Co-operative societies for reforestation may be mentioned here as a possible development of great importance to agriculture, not only for the profit they might bring to their members but also as a source of fuel, releasing natural fertilizer for the soil, and as a bulwark against erosion on the lower levels. Societies for forest workers are a hopeful development in the Punjab and in Bombay. In the Punjab in 1943-4, forest societies in 54 villages earned about Rs 25,357 from the sale of forest products and deposited Rs 6,285 in the thrift campaign.⁵⁸⁸ In view of the great need for more forests, the forest area being inadequate in several northern Provinces particularly, a constructive pattern is offered by the Punjab Forest Department's turning over to thirty village forest societies in 1943-4 the protection, management and improvement of all forest areas in their jurisdiction. The plans were made in consultation with the villagers and inspection and supervision divided between the Forest and the Co-operative Departments.^{587a} The use of such societies for afforestation under Forest Department supervision has important possibilities.

The Reserve Bank of India has described in its Bulletin No. 4 the great success attained by the 'Shamlat' society in Panjavar in the Hoshiarpur District in the

Punjab, a success growing out of the experiment in the owners' co-operative management of the village waste land, on which trees were planted, etc.

One of the types of co-operatives in Mexico offers a pattern which might perhaps be investigated with profit both for joint farming and reforestation societies. In it the society, 'with state participation', exploits Government lands and shares the profits with the Government.⁵⁸⁸

Transport Societies

A minor co-operative development of recent years is represented by motor transport co-operatives, found chiefly in the Punjab and Madras, but also in the United Provinces, Bombay, Delhi,⁵⁸⁹ etc. The Punjab had four such societies registered before the end of 1943-4. One at Montgomery had in that year 157 members and was operating on nineteen routes. It had a share capital of Rs 5.99 lakhs and a gross monthly income of over Rs 50,000. Its profit in 1943-4 was Rs 52,919.⁵⁹⁰ The Reserve Bank raised the objection that membership in the Punjab's motor transport societies was restricted to lorry owners, workers being excluded.⁵⁹¹

An important scheme for motor transport societies was announced in Madras in the Registrar's report for 1946-7. Twelve primary societies were being organized to start with, with twenty primaries and a central society as the goal, with 500 lorries and 100 jeeps. Under this scheme, sponsored by the Director of Resettlement and Employment, 289 chassis were placed at the societies' disposal and bodies were being built.⁵⁹²

The successful motor transport society at Meerut in the United Provinces, showing a profit in 1944-5 of Rs 2,537, furnished trucks to its members on the hire-purchase system and gave short-term loans for repairs.⁵⁹³

The possibilities of organizing country craft co-operatives were considered by the Saraiya Committee,⁵⁹⁴ but, though such societies for financial assistance and for assistance in the procurement of engines for members'

boats would be of value in the solution of the new Dominions' transport problems, that would seem to be a development for the future.

The apparently chronic petrol shortage is a factor which may well discourage the formation of motor transport societies, but the progressive nationalization of road transport, which is the announced policy of the party in power in the Republic of India, will not, according to Shri Morarji Desai, then Bombay's Home Minister, affect unfavourably the co-operative organizations in the field. He gave that assurance in inaugurating on 1 September 1948 a co-operative passenger bus service operating from Ratnagiri District.

Labour Contract Societies

If the small farm owner's economic situation and that of the industrial worker is difficult, that of the agricultural labourer and of the unskilled labourer in the cities is deplorable. This group is largely beyond the reach of many types of co-operative benefits, since they have no tangible security and no assurance of continuity of employment. Living as they do from hand to mouth, their best hope from the Co-operative Movement, pending the achievement of a larger measure of social and economic justice, is from the labour contract societies, which can save for the workers the contractor's profits, save them from exploitation and, with due consideration from Public Works and Forest Department officials and from co-operative regional development, better farming and housing societies, give their members a reasonable assurance of steady work.

The Saraiya Committee recommended that housing societies should give preference as far as possible to labour contract societies,⁵⁹⁵ and one of the Madras societies is, in fact, composed of skilled labourers who can build modern houses.⁵⁹⁶ Here again, however, as in the case of mutual relations between marketing and consumers' societies, a conflict of interests is implicit in the relation-

ship; one group's gain must spell the other's loss unless there is a definite effort to ensure fair terms to both.

The large periodic unemployment among workers of this class is due not to dearth of things needing to be done, but to lack of adequate planning and organization to canalize the labour force available into useful channels.

It is obvious that a small number of men, more or less equally matched in potential output of labour, accepting a contract that allows each to earn a fair wage, is at a great advantage over the single labourer, who is at a hopeless disadvantage in bargaining for his services.

As the number of labour-contract societies grows, they must be counselled and helped to form their federations to work for their interests, for fair terms and preferential consideration in the placement of contracts. Such federations should be able, as time goes on, to take over gradually more and more of the Co-operative Department's function of supervision of these societies. But federation is still far in the future and in the meantime the primary societies have to be encouraged and assisted, for it has been the experience in Madras, which leads in this line of activity, that the members of such societies lack the education, knowledge and business acumen to manage the societies' affairs themselves.

Madras had 24 labour contract societies at the end of 1946-7, with 2,698 members, of whom, however, only 2,303 were actual workers, the others being sympathizers. They had a paid-up share capital of Rs 20,643, and had executed just over a lakh's worth of work during the year and paid Rs 51,302 in wages to members and non-members. The difficulty of securing building materials and skilled labour when necessary to complete a contract had handicapped their working. Some societies worked at road repair and construction, the digging of canals, etc.⁵⁸⁷ Apropos of the elaborate scheme for Civil Construction Co-operatives drawn up by the General Headquarters for demobilized servicemen, which the

Saraiya Committee described at length and criticized,⁵⁹⁷ it is rather discouraging to learn that all seven labour contract societies for ex-servicemen in Madras were under liquidation at the end of 1946-7, though three had worked at a profit.⁵⁹⁸

How dependent these societies are upon sympathetic patronage was illustrated by the Kangra labour contract society in the Punjab, with 378 members at the end of 1943-4. It had handled thirty-six contracts, but the Public Works Department had raised audit objections and the assurance of regular work at reasonable wages was gone. The society was getting no work and the Registrar said it would have to be closed, though his Department had considered its work satisfactory.⁵⁹⁹ In any case, the Public Works Department cannot be expected to provide employment for all the labour contract societies which would be required to take care of this vast impoverished sector of the population, and opportunities for private employment of labour contract society members must be sought and developed.

Co-operative construction societies to undertake Public Works Department construction projects were again under consideration in the Punjab in 1947,⁵⁹⁹ but that is only a partial and temporary solution.

Travancore had a labourers' society in 1945-6,⁵⁷⁶ and Cochin had three ex-servicemen's societies which worked in 1946-7, only one of which showed a profit, in spite of Government preference on Public Works contracts, subsidies towards staff and a grant of Rs 5,000 for tools.⁶⁰⁰

Co-operative work was organized in 1947, with generous Government support, among the Adivasis of Bombay Province, with about a dozen centres for timber cutting and charcoal manufacture. An ambitious scheme for assisting such labour contract societies is included in the programme for 1948-9 drawn up by the Provincial Industrial Co-operative Association, envisaging three depots, a fleet of trucks, etc. A Conference of

Forest Labourers' Co-operative Societies, inaugurated by Bombay's Chief Minister, Shri B. G. Kher, was held at Poona in September 1948.

On the whole, the co-operative development so far in this direction is disappointing, considering the greatness and the urgency of the need, but it is not hopeless. This is a type of co-operative activity which deserves energetic encouragement and support.

The Saraiya Committee's careful analysis of the labour co-operative patterns in Italy and New Zealand, where, as in France, Palestine and elsewhere, such societies have been successful, should be of value in the planning for their development on sound lines in India and Pakistan.⁶⁰¹

Co-operative Insurance Societies

Co-operative insurance projects are of special value for the Indian cultivator and wage-earner who lives at or just above the margin of subsistence and is therefore peculiarly at the mercy of untoward developments. The death of the wage-earner or the social necessity for an outlay for marriage or funeral expenses may start the family down the slope to growing indebtedness and ultimate economic ruin. The Saraiya Committee reported *per capita* insurance in India as only Rs 8, as compared with Rs 2,300 in the United States and Rs 973 in the United Kingdom.⁶⁰² While only a general improvement in the small man's economic position can bring insurance within the reach of most, the present possibilities are far from having been adequately exploited. Insurance has so far not received its due of recognition as a co-operative effort.

The first ventures in the insurance field in India were with cattle insurance, which were found unsuitable for co-operative working, because of management costs disproportionate to the amounts insured, etc. Even in Burma, where they had been most prominent, they declined from 1918 on and were finally wound up.⁶⁰³

Bombay, Coorg and the Punjab also had such societies, but none were reported in 1945-6.⁶⁰⁴ Such insurance is important, but the Gadgil Committee felt that without the state providing it and an efficient general system of veterinary assistance, 'the economic basis for the financing of animal husbandry would remain extremely precarious'.¹⁶³ The Saraiya Committee also felt that cattle insurance was unsuited to co-operative effort, at least until the Provincial Governments should have gathered statistics and worked such insurance for a while.⁶⁰⁵ Crop insurance, it felt, might also better be undertaken by the state.

There were 17 insurance societies in India in 1945-6, of which Madras' 4 had a much larger total business than all the rest together, a total risk insured of Rs 857.9 lakhs out of the national total of Rs 1,341.6 lakhs. The Hyderabad Co-operative Insurance Society stood next, with a total business of Rs 231.9 lakhs. Bengal had 6 societies, Bombay 4 and Indore and Baroda one each,⁶⁰⁴ though the Indore society was reported in 1946-7 to be on the verge of dissolution.⁶⁰⁵ By 1946-7 Bombay had another society.⁶⁰⁶ There are also numerous mutual benefit and insurance funds for specific groups of employees.⁶⁰⁷ Cochin, for example, has four benefit fund societies which worked at a profit in 1946-7.⁶⁰⁸

Life insurance is by far the most important type. The encouragement by the state of co-operative societies for life insurance was recommended by the Insurance Subcommittee of the National Planning Committee, which recognized the importance of making this necessary service available at the cheapest possible rates. The Insurance Act (1938) defines a co-operative life insurance society as an insurer having no share capital on which dividend or bonus is payable and of which the original members applying for registration and all policy-holders are members, thus eliminating vested interests seeking large profits. The substitution of service for profits in the basis of such societies might appropriately be recognized

by the Government by exempting the interest they earn on all their investments, as the Saraiya Committee has recommended.⁶⁰⁹

All the existing co-operative insurance societies have been catering chiefly for people of some means living in towns. An Amendment to the Insurance Act in 1946 set Rs 1,000 as the minimum policy to be issued, which drastically affected the rural business of co-operative societies until an Act passed in 1948 exempted them from this provision. Immediate steps were thereupon taken by the Bombay Co-operative Insurance Society, and doubtless by others also, to resume activities in the rural field.

That society, registered in 1930, had increased its business by nearly 400 per cent since 1939, having had at the end of 1947 a total risk insured of Rs 285.5 lakhs. In that year 2,785 new policies were written for Rs 47.2 lakhs. The South Indian Co-operative Insurance Society, registered in 1932, another of the largest, had, at the end of 1946, 18,889 policies in force covering a risk of Rs 229.9 lakhs. Valuation at the end of 1945 had disclosed a surplus of Rs 1.96 lakhs and a bonus had been declared. An expansion programme with new branches was planned by that society in 1947.⁶¹²

The Saraiya Committee recommended a maximum of Rs 5,000 for co-operative insurance policies, or, with the Registrar's special permission, Rs 10,000 with certain restrictions.⁶⁰⁹ The Bombay Co-operative Insurance Society, however, offers policies from Rs 200 up to any amount. Since, as the Saraiya Committee admitted, the larger the business of a society, the lower will be its expense ratio,⁶¹⁰ this would seem unexceptionable, provided reinsurance is adequately resorted to. The Bombay Society had 4.9 per cent of its total business reinsured at the end of 1947.

Rural premiums are naturally higher; smaller policies increase the overhead charges, and the waiving of medical examination where necessary, for policies up to Rs 900,

increases the risk. That, however, the difference between the urban and rural rates may tend to be excessive is indicated by the recommendation of the All-India Co-operative Insurance Society that the difference between them should not be more than $33\frac{1}{3}$ per cent.

Co-operative societies of other types have done much to help the insurance societies in some cases, by encouraging their members to take out co-operative insurance policies,⁶¹¹ premium reductions and certain other advances being allowed to co-operative society members. Other types of societies also sometimes take the agency for the insurance company, a commission being allowed them on the policies secured.

A closer link-up between co-operative insurance and credit societies seems to be in the interest of both, though the MacLagan Committee frowned on any financial connexion between insurance societies and the central banks, except for the deposit of the former's surplus funds in the latter, favouring the financing of insurance societies by separate reinsurance institutions.⁶¹²

The insurance of members gives additional security for the loans of credit societies, and the suggestion of a preferential lending rate where policies are tendered as security may be worth considering. In Baroda, a number of the societies which had adopted the Provident Fund scheme have changed their by-laws to permit the payment of insurance premiums from insured members' compulsory savings and interest on their funds in the Provident Fund.⁶¹³

The Madras Committee recommended the linking up of land-mortgage credit with co-operative insurance, while recognizing that this would not be practicable for a co-operative insurance society unless the land-mortgage banks gave it a virtual monopoly of their business.⁶¹⁴

Madras has a Co-operative Fire and General Insurance Society, registered in 1941, its field including fire, motor, accident and fidelity insurance and insurance against theft. It has share capital, but the dividend is limited

to 4 per cent and membership is open only to registered co-operative societies, by which the insurance society is largely managed.⁶¹³ Madras also had a co-operative motor vehicles insurance society registered in 1946, but the Registrar asked for its dissolution, as it had chosen to secure registration under the Insurance Act.⁵⁹²

The Orissa Motor Transport Insurance Co-operative Society was organized early in 1946, with 16 members and a paid-up share capital of Rs 29,600.⁶¹⁶ There were two fidelity insurance societies in Kashmir 'to guarantee the fidelity of employees of the Co-operative Department and co-operative societies' but they had not started work at the end of 1945-6.⁶¹⁷ An insurance society was at that time under contemplation in the North-West Frontier Province also.⁶¹⁸

An All-India Co-operative Insurance Societies Association was started in 1945, with which the insurance societies might affiliate themselves. Another All-India Co-operative Insurance Society for fire and general insurance business has been formed since the Saraiya Committee recommended it in 1946. Such a society, as the Reserve Bank pointed out in connexion with the Madras primary society of similar type, is of great potential value to all co-operative institutions, central and primary, which advance loans against produce, affording them the opportunity to cover their risks.⁶¹⁵ By-laws for such a society were drawn up in 1947 by the Bombay Provincial Co-operative Institute. Continued steady progress was reported for it in 1951-2.^{618a}

Considering the low level of co-operative efficiency in some Provinces and States, it seems impossible to agree with the Saraiya Committee's recommendation that a co-operative life insurance society be formed in each Province with co-operation from societies of various types.⁶⁰⁹ On the other hand, the present arrangement, or lack of it, whereby each insurance society considers the whole of the Indian Dominion its legitimate field, cannot be in the interest of efficiency. The Coorg Registrar, for ex-

ample, reported that in 1946-7 the Provincial Bank there was considering taking up the agency of the Bombay Co-operative Life Insurance Society,⁶¹⁹ and the list of banks where premiums may be paid to the latter shows a very wide area of operations. Co-operative societies' competing against each other, in each other's home territories as well as outside, seems not only unseemly but undesirable from every point of view. The financial stability promoted by large-scale operations coupled with skilful management is of particular importance in connexion with a life insurance society, which is virtually a public trust. And since every policy-holder in such a society is a member, there is no loss of theoretical democratic control because the organization operates across Provincial lines. To have it do so may, in fact, help to check the unfortunate tendency to divisiveness which brought about the partition of India and still threatens the unity of the parts. But the way is not to have all societies operating all over the map. In the absence of any All-India regulation to prevent this, an equitable division of territory within the Indian Republic should be made by mutual agreement among the existing sound societies, as far as new business is concerned, perhaps with the good offices of the All-India Co-operative Insurance Societies Association.

The Industrial State Insurance Act, to implement which an Employees' State Insurance Corporation was recently set up, will meet a great need in the field of social insurance. A beginning is being made in Delhi and Ajmer-Merwara with health insurance and medical relief for workers in perennial factories, but the plan envisages ultimately maternity, disablement and dependency benefits also for industrial workers throughout the Indian Republic. It should not affect very much the life insurance business of co-operative insurance societies, very many of the factory workers whom the scheme will benefit living too near the margin of subsistence to take even small co-operative insurance policies.

It was a different thing when the new Co-operative Insurance Society of Trivandrum, started in 1932, was discouraged out of existence by the Travancore Government throwing open to the public its State Life Insurance Scheme at lower rates than the society could offer, and with additional advantages.⁶²⁰ The important thing, of course, is that insurance at reasonable rates shall be available to all. If this service is offered by the state, there are plenty of other avenues of service for the Co-operative Movement, but from the present state of the exchequer, it would seem that there will be ample opportunity for co-operative expansion in the insurance field for some time to come.

Co-operative Housing Societies

The message of Rajkumari Amrit Kaur, Indian Health Minister, to the Conference of Chairmen and Members of Improvement Trusts and Development Boards in the Indian Dominion, held at Delhi in June 1948, a sub-committee of which considered housing co-operatives, underlines the seriousness of the housing problem which the Co-operative Movement is attempting to meet in some small measure. Her words apply as well to Pakistan as to India:—

To anyone who sees the hovels and insanitary conditions in which the vast majority of India's population lives, it is not necessary to emphasize the importance of bodies such as improvement trusts. That our cities and our villages should be cleared of slums and hovels and our people given decent dwellings at the earliest possible opportunity is vital to the Nation's well-being.

The housing situation has become so acute, especially in crowded centres, that the possibilities which co-operative societies offer towards its solution gives them an importance in the co-operative picture to which their numerical strength would hardly yet entitle them. The shortage and high prices of building materials arising out of war conditions, coupled with the economic situa-

tion generally, has almost paralysed private effort in this direction and the middle class at least must look largely to Co-operation for the solution of their housing problem. Along with building material priorities, cheap credit is required by co-operative housing societies, and their success will depend in part upon whether these are forthcoming.

Of India's housing societies in 1944-5, 129 were in Bombay, 114 in Madras, 49 in Baroda,⁶²¹ 45 in Sind and 31 in the United Provinces.⁶²² The rapidity of the advance since then can be judged by the statement of Bombay's Minister for Labour and Housing in inaugurating the Bombay Co-operative Housing Federation on 11 July 1948, that 105 new co-operative housing societies had been registered during the last two years. The Bombay Registrar reported, however, that up to June 1947 few of the societies had been able to proceed with their building programme, due to difficulties in getting materials.

Housing societies have been an important development in Sind, now part of Pakistan, especially in Karachi and Hyderabad.⁶²³ Baroda had several new housing societies registered in 1945-6.⁶²⁴ Gwalior had 10 housing societies in 1945-6, though only 2 were working.⁶²⁵ The Central Provinces and Berar had 14 housing societies in 1944-5, of which 6 were dormant. There were no proposals for new societies, due to the high cost of materials.⁶²⁶ The Premier Housing Co-operative Society of Nagpur would shortly, the Registrar expected in his report for 1945-6, function as a Provincial Housing Society for the Central Provinces and Berar.⁵⁰⁸

Few of the thirty-one housing societies in the United Provinces in 1944-5 constructed houses, though some acquired land and distributed it to members. The management of two had to be superseded and their working taken over by the Co-operative Department.⁵¹⁵ One building society was working in Orissa in 1945-6. It had no overdues and a profit of Rs 2,452 during the year.³⁸⁹ The Mercara House Building Society in Coorg has been doing

well, providing tenements to many needy members.⁶²⁷ A special effort was planned to develop housing societies in Bangalore, Shimoga and Mysore, the Mysore Registrar indicated in his report for 1945-6.⁶²⁸ The Government of Assam was reported in April 1948 to have sanctioned an appropriation of Rs 8,055,000 to start co-operative building and housing societies.

Housing societies in India have fallen into two main categories: the individual home ownership type, which is in effect a specialized kind of co-operative credit society, though the society, in addition to financing the building with loans, taking a mortgage on the house as security, assists also in various ways with planning and counsel; and the tenant-co-partnership society, the members of which own a building in common. In the latter type of society, the members pay a small entrance fee and subscribe to one or more shares, paying in instalments. Deposits and loans make up the rest of the society's working capital. Tenants become owners on paying a fixed rental over a period of years calculated to cover the cost of construction and upkeep.⁶²⁹ The latter type of society is the more common in Bombay, the former in Madras.⁶⁰⁷

The financing of housing societies by the co-operative banks is not in general feasible because of the long time the loans, derived in the case of central banks from short-term deposits, have to be locked up.⁴⁸⁹ Here and there, however, the latter have turned to this business as an outlet for their surplus funds. The land-mortgage banks are not available for urban housing societies, though they might find in rural housing societies an outlet for their surpluses. The Reserve Bank has suggested a central financing agency in each Province for house-building societies exclusively, and also the introduction of a system of insuring the lives of housing society members for the full value of the houses built for them.⁵⁰⁵ This would, of course, add to the cost of a housing project to members and thus narrow still further the benefits of co-operative housing, and so seems inadvis-

able for projects of the quasi-charitable type. If adopted, the stipulation might well be made that the insurance must be placed with a co-operative insurance society on a sound basis.

The Central Government came directly into the housing picture in August 1948, with the sanctioning of a loan of Rs 64 lakhs to the United States of Rajasthan to finance the Pratab Nagar Township scheme sponsored by the Udaipur Co-operative Society for refugees from Sind. The plans call for 3,000 houses for 20,000 displaced persons, a school, a dispensary, a power house, waterworks and roads, at an estimated cost of Rs 74 lakhs. The Rajasthan Government had given a free grant of land and a loan of Rs 4 lakhs on its own account.

The policy of granting loans to co-operative housing societies at easy rates was accepted years ago by the Governments of several Provinces, but Bombay, which had lent to housing societies from 1922 on, discontinued such loans thirteen or fourteen years ago, after which, for several years, co-operative housing societies were registered on the understanding that they would find their own finance. The previous maximum for loans to individuals in that Province was Rs 12,000 in Bombay and Rs 6,000 in the mofussil, loans being repayable in equated annual instalments over 25 to 40 years.⁶³⁰ Loans have been resumed, though the maximum of Rs 5,000 to a co-operative housing society member was protested against by a resolution passed at the Provincial Co-operative Conference in April 1948.⁶³¹ In August 1948, the restriction of the floor space in a two-room and kitchen tenement eligible for the largest proportional Government loan at the lowest rate was announced, underlining the Bombay Government's policy to help especially the lower-income group. That Government more recently decided that loans at low rates to land mortgage banks would be the best way to encourage building activities.

The Bombay Co-operative Housing Federation is designed to help new societies with advice and otherwise

and to co-ordinate the efforts of all housing societies in the Province. Its functions include negotiation for land, materials and finance on their behalf, as well as inspection and supervision of their working, the organizing of new societies and the discharge of such statutory functions as the Registrar may entrust to it.

Several large housing projects have been started in Bombay in 1947-8, two to house between them 196 families in two-room tenements, and another, estimated to cost Rs 12 lakhs, to accommodate nearly 150 families. Efforts are being made also to develop housing societies in the other industrial centres of Bombay, Ahmedabad, Sholapur, Hubli and Poona. The development is largest in Ahmedabad, which has twenty-four housing societies, but they have deviated somewhat from the orthodox co-operative pattern.⁶³²

Though housing projects have so far been confined largely to urban areas, the housing needs of the rural areas have not been lost sight of. The Fifteenth Conference of Registrars felt, however, that rural housing had not received the attention it deserved and recommended at least one experimental rural housing society for each Province, with Government help for land and priorities.³⁹¹

A large scheme in Surat District sanctioned by the Bombay Government for the benefit of the backward community of Halpatis, calls for the organization of ten housing societies in suitable areas to erect 100 model dwellings at a cost of Rs 500 each. The Government's loan, half of which must be repaid within ten years, is interest-free, the assets of the societies and the dwellings to be mortgaged to the Government until the loan is repaid. The Forest Department is furnishing timber and bamboos at concessional rates, and unoccupied Government land is being made available to the societies, which will each receive, besides, a subsidy for half the cost of a well for drinking water.⁶³³

Bombay has had house reconstruction societies since

the Gujarat floods in 1927. There were still twelve of them in 1946-7, one having been ordered to be wound up in that year, its entire debt to the Government having been repaid.⁶³⁴

The Madras Government has been particularly generous in its support of co-operating societies and members, and the opposite trend is noticeable in loan maxima from that in Bombay. In 1936 the maximum loan was raised from Rs 3,000 a person to Rs 8,000 for Madras proper and Rs 6,000 for the mofussil. There have been very ambitious developments there, such as the garden suburb being built by the Madras Co-operative House Construction Society formed in 1946-7 with 661 members, a paid-up share capital of Rs 22.3 lakhs and a long waiting list, those on which had deposited over Rs 7 lakhs as earnest money. The Government had given the society for a year the services of a Deputy Registrar and the loan of the services of a Public Works Department Executive Engineer.⁶³⁵ Some of the houses are to cost as much as Rs 15,000.

The housing shortage bears only less hardly upon the upper middle class than on those poorer, and assistance with counsel and loans at bank rates may well be given its members in solving their housing problem, but the question arises of the appropriateness of outright assistance at public expense to individuals of this economic class. The same applies to the Katpadi Co-operative Housing Society which aims at nothing less than forming a new township and discharging all the functions of a municipality, providing all modern amenities, like metalled roads, underground drainage, electric lighting and protected water supply, besides constructing about 5,000 up-to-date garden houses, schools, etc., and providing parks and playgrounds on its 1,200-acre tract.

The lower-income groups have not been overlooked in Madras, however. Schemes for housing industrial workers were started from 1938 at Coimbatore, Madura and Ambasamudran, the co-operation of the textile mills

being enlisted in the first two. Workers become society members on a nominal share capital of Re 1 and pay a monthly rent of Rs 3 to Rs 4. If this is paid regularly for 10 to 20 years, the workers become absolute owners.⁶³⁶

The possibilities of co-operative housing projects for rural and semi-urban industrial workers are well illustrated by the Madras experiments at Yemmiganur in Bellary District and at Harveypatti near Madura, the latter with generous support from the Harvey Mills. The largest weavers' society in Madras, that at Yemmiganur, was undertaking the construction of 200 houses and a common weavers' hall. If this experiment succeeds as well as the Harveypatti project, also described in the Saraiya Committee's report,⁶³⁵ it should furnish the incentive and the pattern for similar efforts at self-help throughout the country.

The Madras Government in 1946-7 arranged priorities for iron, timber and cement for its housing societies.⁶³⁵ The Madras Minister for Co-operation announced in May 1948, that his Government had provided 79 lakhs in 1948-9 for building houses in urban areas through co-operative societies. It was also considering a scheme for providing Rs 2½ crores during the next two years for constructing village dwellings through co-operative societies.

The Central Provinces and Berar announced late in September 1948, a large-scale scheme for co-operative housing societies to meet the need of urban refugees in that Province for houses and shops. Help in securing sites and preparing layouts as well as financial assistance to such societies was contemplated by the Government.

The developments in connexion with co-operative housing societies hold some important lessons. One is that, where the demand is not self-initiated, the beneficiaries' reluctance may handicap results, as in the Othachakkars' Co-operative Building Society of Coimbatore, where, though many had been dispossessed by slum

clearance, an inadequate number came forward to take advantage of the housing scheme on remarkably attractive terms.⁶³⁷ Another is that, without good management and the right attitude on the part of members, the best of co-operative schemes can result disappointingly, as in the case of the Model Town Society at Lahore, now in Pakistan, a very ambitious project lavishly subsidized by the Punjab Government and with local notables among its defaulting members, which was a worry to the Registrar for years.⁶³⁸

Another lesson is the need of housing co-operatives for informed and intelligent guidance, taught by the experience of a house building society in Amritsar, which between 1939 and 1944 completed twenty houses, only to have three demolished by the Municipality as they had been built without getting the plans approved.⁶³⁹

A fourth and very practical lesson is that offered by the experience of Travancore, where well-constructed houses were built for fisher folk on the Quilon coast, only to have their rents beyond the fishermen's means.⁶³⁹

It goes without saying that Government-sponsored housing projects for the lower-income groups should be in every case co-operatively organized; otherwise, not only will an excellent opportunity for co-operative education be lost, but co-operative housing societies will almost inevitably suffer from the Government projects' priorities in the matter of building materials.

A poor country must cut its coat according to its cloth. If the rural housing goal is set impossibly high, the possible in the way of improvement may not be attempted. Even the minimum requirement that no human being shall be without shelter calls for a condition which cannot be claimed to exist today. The pavement dwellers in the cities are hardly worse off than the rural people condemned by their poverty and by the housing shortage to huts of crude thatch beside which the common mud huts with thatched roofs represent luxury. Let the people be given plans for mud huts sufficiently commodious

to enable comfortable and decent living, and a relatively small outlay will be required for their construction. Meantime the production of the compressed mud substitutes for bricks which have been found satisfactory in the Punjab⁶⁴⁰ can be taught and encouraged, so that gradually *pukka* village dwellings may replace the *kachcha* ones now so general. But let us 'make haste slowly'.

Even the improvement of existing houses, as the Saraiya Committee very practically suggests, will be an advance on present conditions, and it calculates that with proper guidance and the contribution of the labour of the farmer in his off season, and that of his family, even a new house can be constructed with local materials at a cost as low as Rs 150.⁶⁴⁰

It may be mentioned incidentally that housing projects offer as good an opportunity as better living societies proper for the inculcation, especially where the beneficiaries are of the lower class, of the fundamentals of hygienic and sanitary living. Otherwise, as has happened sometimes in the West, objectionable habits may only be transplanted, to flourish in the new environment. 'Beware,' wrote Thoreau, 'of all enterprises that require new clothes, and not rather a new wearer of clothes.'

Better Living Societies

The improvement of sanitation and hygiene is one of the several objects of the better living societies so-called, which in 1944-5 represented nearly 5 per cent of the primary societies. The others include the reform of bad customs prevalent amongst the members; the inculcation of thrift and the prevention of waste by discouraging extravagant ceremonial expenditure, etc.; the promotion of education and wholesome recreation; the cultivation of the sense of self-respect and resistance to corruption; the encouragement of self-help and mutual help; and the improvement of the physical, moral and spiritual condition of members in a variety of ways.

Of the 7,171 societies of this type in 1944-5, according to the Reserve Bank's table, the United Provinces had 3,955, the Punjab 2,163 and Bengal 502, the few hundred remaining being divided among Kashmir, Bombay, Madras and Bihar.⁶⁴¹

Various lines of village improvement, such as sanitation, village road construction, well-digging, tank clearance and the putting in of ventilators in ill-ventilated homes have all been taken up by such societies,⁶⁴² notably in the Punjab, where, as in Bengal, the labour services which the members render are on a free and voluntary basis.⁶⁴³ Though the Punjab had lost to the United Provinces its early lead in this branch of Co-operation, the membership in the former's better living societies had increased from 62,578 in 1938-9 to 109,342 in 1945-6.⁶⁴⁴

Better living societies in the United Provinces in that year included ten central societies. Remarkable results are claimed from their village-aid schemes. In 608 societies better farming methods were enforced under penalty of fines. Improved implements had been introduced, wells constructed and sanitary measures put into effect.⁵¹⁵

The Banking Enquiry Committee in the United Provinces went so far as to recommend the formation of such societies as the entering wedge of co-operation in any village, holding that a credit society should not be started until prospective members had shown their fitness to work in co-operation in managing a society for rural reconstruction or better living.

The fundamental aim of rural reconstruction efforts has been defined as the creation among the masses of a will to live better.⁶⁴⁵ Better living societies once organized and working well have great potentialities for arousing that will. A veteran co-operative official like Mr F. W. Wace, however, did not consider the better living society suitable as the pioneer and nuclear co-operative undertaking. The enthusiasm of the members, he declares, is a condition of success and 'the

simpler and more urgent the need which the society is designed to meet the more likely is it that the members will retain their interest and make a success of it'. Upon that success in one limited objective other co-operative undertakings can be founded with hope of doing well.⁵⁴⁹ There is unfortunately truth in his implication that the need for improvement of one's self and one's customs is not felt strongly enough by the average individual to arouse very great enthusiasm.

Stagnation has been reported for Orissa's³⁶⁹ and Gwalior's few better living societies; the Gwalior Registrar ascribes it to the lack of enthusiastic workers in the villages.⁶⁴⁶

Enthusiasm apart, Mr Wace believed (perhaps provided the way had been paved by a successful society of another type) that better living societies were 'the best agency for the expansion and enforcement of permanent measures for rural reconstruction'.⁶⁴⁷

One better living society in the Punjab was reported to have reduced the cost of marriage from Rs 500 to Rs 70 for a boy's family and from Rs 800 to Rs 300 for a girl's family. The society fixed the number of guests that might accompany the bridegroom to the bride's home, and the old custom of displaying the bride's presents had been abolished.⁶⁴⁸ A better living society for the whole Audich Brahmin community in Baroda State was reported to have saved Rs 94,560 by 1930 by reducing ceremonial expenditure.⁶⁴⁹ Reduction of expenditures was mentioned also by the Coorg Registrar in his 1946-7 report as having been brought about by a better living society among Balavalikar Brahmins, but the better living societies in Coorg were being amalgamated with credit societies.⁶⁵⁰

Better living societies have been reported to be doing good work in Assam.⁶⁵¹

In Bihar the village welfare societies in backward areas were under the supervisors maintained by the Divisional Co-operative Federation, under a Government sub-

sidy.⁶⁵² Supervision in the United Provinces has been under the Rural Development staff. The better living societies there were started with the intention of developing them ultimately into multi-purpose societies.⁶⁴⁴

Health services have been rendered by better living societies in several Provinces.⁶⁵³ The United Provinces in 1944-5 had first-aid dispensaries in connexion with 2,401 better living societies.⁶⁵⁴ In Bengal, the Punjab and Baroda there have been separate health co-operatives for a number of years. Bengal's anti-malaria societies, in the field for three decades, have done yeoman service in the checking of the scourge in that Province, by draining swamps, treating tanks, clearing jungles, distributing quinine, etc. Such societies numbered 1,048 in 1945-6,⁶⁵⁵ a decline of 51 since 1939-40.⁶⁵³

In both Bengal and the Punjab health co-operatives have maintained dispensaries run by a trained nurse or a compounder where a doctor has not been available,⁶⁵⁵ supplying medicine at cost and the doctor's services for a nominal fee, Government grants being given for part of the expense.⁶⁵³ Hubli in Bombay Province has a co-operative hospital.

Delhi opened in September 1948, under the auspices of the Ministry of Relief and Re-habilitation, six co-operative health centres where medical service is available for a small monthly fee per family and a small fee for the visits of the doctor to patients in the area assigned to him. This experiment will be watched with keen interest. Pre-paid group medicine and even hospitals on a co-operative basis have a great future in India and Pakistan, though their benefits cannot possibly be extended to all without state subsidies. The Saraiya Committee recognized the limitations of voluntary effort in this field, where most of the people are so poor. It recommended that, pending the organization by the state of medical services on a comprehensive scale, Government aid should be given to co-operative health projects,

up to 75 per cent of the working costs in rural areas.⁶⁵⁶

The Saraiya Committee's suggestion that life insurance companies, in their own interest, might well start health co-operatives among their policy holders by offering rebates on insurance premiums or direct medical assistance⁶⁵⁷ should be drawn prominently to the attention of insurance companies in general and co-operative life insurance societies in particular.

Education is another activity which falls in the better living field and has been attempted to some extent by better living societies as well as by societies specifically for education. One better living society at Javalwadi, Satara District, Bombay, has opened as many as fifty-five schools in the villages.⁶⁴³ Adult education societies have been formed in several Provinces, e.g. the Central Provinces,⁶⁵⁸ the United Provinces⁶⁵⁹ and the Punjab, where they are reported not always to have worked well.⁶⁶⁰ The United Provinces had, in 1944-5, 15 central and 19 primary co-operative education societies.⁶¹⁵ Baroda had in that year 3 primary schools co-operatively organized; also 4 students' aid societies, lending money for higher studies,⁶²⁴ a development found also in the Punjab.⁶⁶¹

Reference has been made to the Indian villager's proneness to litigation. In cases, the requirement has been written into the by-laws of village societies that members must submit their disputes to arbitration by the managing committee, under penalty of fine.⁶⁶²

Special arbitration societies to settle disputes have been formed in the Punjab, Madras and elsewhere. There were four in the United Provinces in 1944-5.⁶¹⁵ The Committee on Co-operation in Madras rather grudgingly suggested experimental arbitration societies in selected small and self-contained villages where modern education had not penetrated and the villagers were inclined to obey the elders.⁶⁶³ Such societies may be expected to decline as the functions of the village Panchayats are revived. These and the Debt Conciliation Boards were reported to

have reduced the work and importance of arbitration societies in the Punjab by 1943-4.⁶⁴²

Thrift efforts as distinct from credit also fit in well with the better living societies proper, but as these do not normally accept deposits the co-operation of a credit society might be secured for the savings, for example, for specific anticipated expenditures which the Gadgil Committee recommended.¹⁸³ Thrift societies for children in the Punjab numbered twelve in 1945-6 and were reported to be doing useful work in inculcating habits of thrift.⁶⁶⁴

Co-operative Tribunals for the hearing of appeals from the decision of arbitrators or of the Department have recently been provided in Bombay. The President of the Tribunal must be a retired High Court or District Judge or a former Registrar of Co-operative Societies and the other two members, non-officials closely associated with the Co-operative Movement, one of whom must be a lawyer of no less than ten years' standing. The members are to hold office ordinarily for five years.

Societies for Women

Co-operation has a vast opportunity, until recently largely neglected, in connexion with the women of India and Pakistan. The co-operative societies have always been open to women. Cochin had in 1946-7 as many as 4,295 women members of primary societies out of the total of 66,894 members in that State.⁶⁶⁵ But difficulties in connexion with the security which women can offer, the custody of funds, etc., have been deterrents in connexion with credit societies, which so long held the centre of the stage. There have been exceptions, women having served on managing committees of mixed societies and even as office-bearers, but these have been comparatively rare. With the diversion of interest to a greater extent to non-credit activities, the way is open to the intensification of the work among women in the regions where it has made some progress, and to starting it elsewhere.

The case for bringing women into the Movement has been convincingly put by Mr F. L. Brayne, I.C.S., former Registrar in the Punjab, which has pioneered in several useful lines and shares honours with Madras for having done most for the women's side of the Co-operative Movement. Writing on 'Women and Indian Villages' in *The Aryan Path* for June 1946, he declared: 'The home is the centre of the nation and the woman is the centre of the home'. Ignoring women in the attempt to develop India, he warned, could only lead to failure and frustration. With one wheel of the chariot of progress firmly locked, the chariot could only go round in circles. Better farming and higher income, he declared, were only means to the end of better and happier homes. The apathy of the villager, so often complained of, would be dispelled by putting across to him the ideal of a pleasant home and healthy, happy children. Well-planned, well-ventilated, smokeless homes, well run, 'hay-boxes to take the place of dung-cake fires, flowers in the little compounds, paved and drained streets, improved wells', and adequate sanitary arrangements: are these beyond the possibilities for the masses of the two Dominions?

Many of the changes indispensable to healthful and happy living on a higher standard call for radical readjustments in habits and customs which time and superstition have invested with a certain sanctity. That India has had no monopoly on unhygienic habits, and that 'Western' and 'sanitary' living habits are not always synonymous was made amply plain in *Our Towns: A Close Up*, published during the last war by the Women's Group on Public Welfare in England. Sight must not be lost, also, of the fact that not a few of the inhibitions and taboos for which Westerners can see no justification are based on India's traditional wisdom and embody sound principles of magnetic cleanliness of which the modern enthusiasts for sanitation know nothing and for which they care less. Indian village welfare workers not

completely glamourised by the Western ways of life should be able to distinguish between the customs worth retaining and those which indubitably require change. In the millions of village women in India and Pakistan, condemned in recent centuries to illiteracy and neglect, ignorance has so strengthened the conservatism natural to womankind that the backing of public opinion is needed to embolden them to make the changes which are really necessary ; the value of co-operative societies for mutual encouragement is in their case particularly great.

Medical and maternity aid are vitally necessary, but they are only part of the need. Mr Brayne proposed one woman guide for every 1,000 homes, to teach better living standards. This is obviously beyond present possibilities, due, among several factors, to the lack of trained women, but women can and must be trained in numbers for this work. The Saraiya Committee suggested the utilization by the Co-operative Departments of the women welfare workers known as 'Sevadanis', who during the war were visiting the homes of serving soldiers, inculcating better living standards and organizing child welfare and simple medical relief, though these were obviously not numerous enough to meet the full need.

The Bombay Provincial Co-operative Conference in April 1948 called for invoking the assistance of the Kasturba National Trust workers among rural women to encourage their joining women's co-operative societies, the Kasturba Gram Sevikas to be trained for this aspect of their work by the Provincial Co-operative Institute, its Co-operative College at Poona as well as its Regional Co-operative Schools being open to women.⁶⁶⁶

Mr Brayne envisaged, besides a network of domestic training schools, 'touring teams of trained women, spending a month in one village to teach the women the elements of home work and then going on to another village, leaving behind them a Co-operative Women's Better Homes Society to consolidate and continue the work'.⁶⁶⁷ I do not agree with his proposal for a separate

Co-operative Movement 'staffed with women from Provincial Registrar to village workers', but certainly women must have more of a voice in official as well as non-official co-operative councils

The Women's Co-operative Home Industries Society of Nagpur was named by the Central Provinces Registrar in his report for 1945-6 as one of the most important industrial associations in the Province.⁵⁰⁸ In Coorg two women's societies ran nursery schools, with Government grants for their staff.⁶⁶⁸ Indore's one women's society in 1946-7, a sari store, was reported to have had difficulties due to the 'war situation'.⁶³⁴

The North-West Frontier Province Registrar expressed his conviction that 'no real development can occur unless women begin to take an active part in the Co-operative Movement'. The Post-War Development Plan there, which was to be given effect to in 1946-7, included one Inspectress and two Sub-Inspectresses.⁶⁶⁹

Sir Janardan Madan in his Address of Welcome at the Nineteenth Bombay Provincial Co-operative Conference on 11 April 1948 expressed the conviction that women workers alone could create the conditions to make the Movement a formidable force and to carry its beneficent results to the homes of thousands of poor families.⁶⁷⁰

The Women's Section of that Conference, largely attended by men as well as women, made co-operative history. One of its resolutions called for the appointment of a woman Assistant Registrar to popularize the Movement among women.⁶⁷¹ This was in line with the Saraiya Committee's recommendation that each Province appoint at least one woman Assistant Registrar or Special Officer to organize and supervise women's societies, and that when the number of such societies increased there should be 'at least one woman welfare worker and the requisite subordinate staff' for every twenty-five societies.⁶⁷²

A woman Assistant Registrar was appointed in the Punjab in 1940, to be in charge of training the women

welfare workers for the villagers,⁶⁷³ and a second has since been appointed.⁶⁷⁴ Since 1945-6 the Punjab has had 3 Inspectresses, including 1 Industrial Inspectress, 29 Sub-Inspectresses, 5 Welfare Inspectresses and 137 women welfare workers under the Rural Reconstruction Department headed by the Registrar.⁶⁷⁵ It is noteworthy that in that year over half the Province's 391 women's societies were of A and B class.⁶⁷⁶

A few years ago the Punjab Registrar mentioned a difficulty which other Provinces have no doubt experienced—the reluctance of relatives 'otherwise apparently sane and progressive' to their womenfolk taking up work as Sub-Inspectresses. Village touring was almost impossible for them in the early thirties⁶⁷⁷—a difficulty which education and the gradual advance of women in other lines of activity may be expected to overcome in course of time.

Some of the Punjab Sub-Inspectresses have been paid from the Government's Special Department Fund and some by the Punjab Co-operative Union, which also charged only a nominal audit fee to women's societies. The Union's effort in that behalf was considered by the Registrar to be beyond the Union's means.⁶⁷⁸

Each woman welfare worker in the Punjab is given a free house in a village, with a modest salary and a woman 'chaprasi'. In 1943-4 the salary was Rs 40 a month. She is expected to maintain a model home with ventilators, chimneys, etc., and to teach the women home industries. In some places they have held classes for children also. The idea has been that they would complete the work in one village and move on to another, but that had been accomplished in few cases, the Registrar wrote in his report for 1939-40 to 1943-4. But, though he felt that the progress had not been great,⁶⁷⁹ he mentioned that thousands of village women had been given practical training in hygiene, sanitation, household management and child welfare—no small achievement, surely.⁶⁷³ During the five years, 4,257 Punjabi women had attended special classes which, however, had had

to be given up when the post of Educational Sub-Inspector had been abolished.⁶⁸⁰

The development in women's co-operative effort in the Punjab seems to have come naturally from the thrift societies for women, which the Saraiya Committee reported as numbering 376. These had been less disappointing than in Assam, where in 1944-5 only 1 out of 10 societies was working, and that not altogether successfully.⁶⁸¹ Their objectives had been gradually widened to include better living, home industries, education, etc. Demonstrations had been given in fruit preserving, embroidery, knitting, sewing, etc.⁶⁸²

The development of cottage industries among women has been stressed in Madras, as in Bombay. Madras in 1946-7 had 43 women's cottage industries societies with 3,515 members, which sold Rs 167,808 worth of goods during the year.⁶⁸³ These societies provide raw materials, like cloth, thread, etc., and take them back as finished products, ready-made garments, embroidery, etc., paying the women wages. It was reported that some members had earned Rs 30 to Rs 40 a month in such work in their leisure hours. The Registrar emphasized the need for liberal state aid for such societies in the first years. Three were in a position by 1946-7 to dispense with the annual subsidies. These cottage industries are supervised by a woman Special Officer appointed by the Government.⁶⁸⁴

The Madras Committee on Co-operation emphasized the responsibility of upper-middle and middle-class women for propaganda and for spreading the theory and practice of co-operation among the poorer women in the towns and villages, teaching them home industries and arts, doing maternity and child welfare work, starting recreation clubs and promoting thrift.⁶⁸⁴

Most of the nine or ten women's industrial societies in the city of Bombay are run chiefly by middle-class women for their poorer sisters. Of these two or three are artisans' societies, e.g. for *messala*-pounding, basket-

making, etc. A broom-making society has done particularly well. Outstanding among women's societies in the city are the Gujarati Stri Sahakari Mandal, a long-established co-operative store, and the Sarvodaya Women's Industrial Co-operative Society, started in August 1944, which in 1947 added a grain shop to its industrial activities. Its women members are reported to have learned skill especially in leather work and printing. Dyeing, tailoring, embroidery and the making of eatables are among its other lines.

Especially important in connexion with this society is the effort to bring to its members a wider outlook. There are weekly lectures and study classes to increase general knowledge, acquaintance with political problems, etc. It would be well if the women's societies generally, as well as others, could plan some activities to enrich their members' lives culturally as well as economically, something, perhaps, on the lines of what is being attempted by the Indian Institute of Culture at Basavangudi, Bangalore, to bring an idea of some of the best things in world culture to people of average mentality and education. Something along this line, given the recognition of the cultural need and the will to meet it, might be developed in connexion with Mr F. L. Brayne's suggestion of 'a Co-operative Women's Institute, touring lecturers, cinemas and magic lanterns'.⁶⁶⁷

Successful producers' co-operation for women, as was brought out at the 1948 Bombay Provincial Co-operative Conference, demands careful planning, not only the training of the society members but also the prior determination of the lines for which a ready market can be found.⁶⁶⁸ Besides societies for women in rural areas, there had also to be encouraged societies of women artisans in urban areas, many of whom were exploited by their employers, and societies by which middle-class women were enabled to supplement their family income by work for a few hours daily in producing food, sweets, etc., either in a common workshop or in their own

homes, or by getting contracts for stitching uniforms, etc.

I met at that Conference, held in April 1948, the secretary and an enthusiastic member of the managing committee of a newly started women's co-operative consumers' and industrial society of Surat. It had 150 initial members, had undertaken stitching and had obtained a contract for the providing of school lunches.

The United Provinces had 107 societies for women in 1944-5, 10 rural and 97 urban, but the Registrar considered such societies still largely in an experimental stage. There were one Inspectress and five women Supervisors. The activities included the inculcation of thrift, the promotion of sanitary living and training in sewing, knitting, embroidery and fan-making.⁵¹⁵

Mysore at the end of 1945-6 had eleven women's societies with over a thousand members, their aims being thrift promotion and the encouragement of home industries, supplying raw materials and selling the products. The societies at Basavangudi and Devangere had sold articles of domestic consumption and clothing worth Rs 61,892, but the Registrar was convinced that such societies required for success the help of educated and enthusiastic women to shape their working.⁵¹⁶

Out of Baroda's 99 agricultural thrift societies in 1944-5, 98 were for women.⁵¹⁷ Ajmer-Merwara had a new Sub-Inspectress in 1945-6 who had organized one thrift and savings society.⁵¹⁸ A variant on the usual thrift pattern and even on orthodox co-operation is the 'chit' system in Madras described by Diwan Bahadur K. D. Mudaliar in 1938, to which he reported the women members completely loyal. Under this, ten or twenty women who desired to have money or needed it for some purpose, subscribed to a 'chit', at the rate of Rs 5 or more a month for twenty months or more. The amounts were faithfully brought to the monthly meeting and the amount so subscribed was lent to one member of the 'chit' by lot or by auction,⁵¹⁹ a system which has its obvious drawbacks but seems at least spontaneous and an encourage-

ment to thrift and a sense of responsibility and mutual service.

Societies for the Depressed Classes

In so far as the special societies for India's Untouchables, called for euphony's sake 'Harijans' or 'Scheduled' and 'Depressed' Classes, are necessary because of social prejudice barring them from general societies, they represent a concession to an unwholesome separative tendency that should not be encouraged. Where, however, separate treatment is necessary because of the special attention needed by the group, like the primitive tribes, because of illiteracy, unemployment and poverty beyond the average, they are commendable as temporary expedients, provided the aim of raising them to the point where they can be absorbed in the main stream of co-operative effort is kept constantly in mind.

The Mysore Committee in 1936 favoured the inclusion of even the Adikarnatakas in ordinary societies, while accepting separate societies where these people were not freely admitted to ordinary societies.⁶⁹⁰ There were still 153 depressed class societies in the State at the end of 1945-6.⁶⁹⁶

If the Co-operative Enquiry Committee in Travancore (1934) was not unduly optimistic in the colonization scheme which it urged for the depressed classes there, there would seem to be no excuse for postponing planning on a large scale for the amelioration of their situation. It drew an idyllic picture of a small plot and a cottage, 2 cows and 25 coconut trees for each family for only Rs 2 a month for fifteen years.⁶⁹¹ The cost would naturally vary from Province to Province, but continued acquiescence in the misery of so large a group should be unthinkable in free countries concerned for social justice.

Co-operative effort is admittedly very difficult in connexion with societies of depressed class and aboriginal members, but 'they that be whole need not a physician, but they that are sick'. Cochin's multi-purpose depressed

class society, though given a substantial working capital by the Government and a full-time secretary, was unable to make any headway in 1945-6.⁶⁹²

The Madras Committee on Co-operation was doubtless right in describing the conditions in the scheduled class societies as very bad, due to the wide-spread poverty, the members' relation to landlord creditors, amounting virtually to permanent servitude, and their possessing hardly any saving or, repaying power. The liquidation in 1939 of the Madras Christian Co-operative Central Bank, which had financed these societies, had underwritten the lesson of the risk.⁶⁹³

But it would be premature to admit the defeat of Co-operation on this front, as the Committee counselled in effect in recommending the turning over of such societies to the Labour Department, already concerned with socio-economic work among them, on the ground that 'the officers of the Co-operative Department cannot give that constant and exclusive attention which the work among the scheduled classes requires'.⁶⁹⁴ This seems perhaps an untenable position, when so many officers of the Department are on loan to societies of other types. There were at the time twenty-one scheduled class societies for joint cultivation.⁶⁹⁵ The Brindavanam Better Living Society for the scheduled castes in Madras City was cited by the Saraiya Committee as having performed useful service, constructing huts with Labour Department assistance and improving the sanitation of their locality.⁶⁴³

Bombay had in 1946-7 societies of conservancy workers⁶⁹⁶ among those whom the prevailing false standards of the dignity of labour relegate to the lowest social rank. While this artificial stratification of society is to be deplored and must finally be overcome, the existence of a group which considers no work beneath them should be an asset in connexion with the vitally important problem of the conversion of village refuse into compost. The estimate that at present 560 million tons of farm-

yard manure are burnt annually as fuel, calculated to be enough for the manure requirements of over 60 per cent of the existing cultivated area,⁵⁵⁴ points to the urgency of this reform. The Central Manure (Compost) Development Committee at its Nagpur meeting in the summer of 1948 recommended steps in all Provinces and States to bring it about, and the collaboration of the Co-operative Departments in organizing societies of labour-contract type for this work might well be sought.

The Saraiya Committee suggested investigating the possibilities of co-operative societies for the most backward classes who dispose of dead animals for the recovery of their hides, not only that their members' standard of living might be improved, but also that the best use might be made of the by-products for manure, etc.⁵⁵⁷

The credit societies in numerous Provinces for depressed class members have been referred to. Subsidies for the clerical staff of depressed class societies are common, being reported, for example, by Bengal⁵⁵⁸ as well as by Bombay and Orissa.

Out of 8 depressed class societies in Gwalior, 5 worked in 1945-6 with a total profit of Rs 114!⁵⁵⁵ One in Cochin, dealing in textiles and stationery, made a net profit of Rs 646 in 1945-6.⁵⁵² Indore's one society for Harijans, started in 1941, had ceased to function by 1946-7, for lack of workers, but attempts were reported to start new ones.⁵⁵⁵

The Madras Co-operation Committee found that little had been done by the ninety-six societies to improve the condition of the hill tribes, except in the Nilgiris.⁵⁵⁹

The organization of co-operative work among such aboriginal people, the Adiwasis, numbering nearly three crores in all, was taken up in earnest in Bombay only a few years ago. In 1947 co-operative societies of Adiwasis were formed in nearly a dozen centres for timber cutting and charcoal manufacture. Liberal Government assistance has been extended to them and Shri B. G. Kher, then Bombay Premier, expressed on 11 April

1948 his confidence in the success of the experiment.⁷⁰⁰ It was announced in July 1948 that co-operative model colonies were planned for the landless Katkaris, backward even among the Adiwasis. The Agricultural Department was to prepare a scheme of mixed farming, including dairy and poultry farming, cattle breeding and scientific grazing. Planned townships, schools and a dispensary were envisaged in the plans. Bombay's housing project in the Surat District for the Halpatis or agricultural labourers has been mentioned.*

The Government of Travancore adopted in 1946 a scheme for the development of Sachivothamapuram, a co-operative colony for the backward communities, the scheme providing for both collective ownership and working of the land.

In the Central Provinces and Berar a loan of Rs 50,000, repayable within a year, was advanced not long ago to the Mandla District Co-operative Association for the collection of *harra* from the forests by its aboriginal members. A loan of Rs 12,000 for the purchase of a motor lorry was repayable in five years.

Gwalior had, in 1944-5, 47 societies for the hill tribes, including, a co-operative store for everyday necessities.⁶⁴⁶ Advances and recoveries in kind have been found a helpful feature in connexion with the operation of Adiwasies' societies there, as in Bombay.⁷⁰¹

Miscellaneous Types of Societies

There are many other types of co-operative effort, some of them of considerable importance, which may be briefly mentioned. Prominent numerically among these are the palmyrah and coconut *jaggery* manufacture co-operative societies formed in Madras to provide alternative employment for former toddy tappers, thrown out of employment by the enforcement of prohibition. These societies, which numbered 153 in 1946-7, with 9,627

* See p. 191.

members, sold Rs 13·1 lakhs' worth of *jaggery* in that year.⁶⁸³

Travancore in 1945-6 had 3 co-operative homes, 2 co-operative cafés, 1 'humanitarian' society and 2 lime-shell co-operative societies to protect their diver members from exploitation by middlemen. The members of these lime-shell societies had been given the right of collection of white lime-shells from the backwaters.⁵⁷⁶

Bombay and Baroda have power-pump societies.⁷⁰² Such societies in Bombay are given loans up to 75 per cent of the initial capital required, repayable within ten years or the life of the pump. No interest is charged for the first three years ; 6 per cent thereafter.

Co-operative societies for the supply of electricity cannot be expected to play in the near future the important role that they have played in the United States and other foreign countries, but such a society is being formed in Bardoli in Bombay Province and, as the power and irrigation projects spread, the number of such societies may well increase.

Multi-Purpose versus Single-Purpose Societies

There can be no question of the value of a concerted attack upon a many-faceted problem. Reluctance to broaden the co-operative undertaking until the credit or perhaps the credit and better living functions are soundly established is like insisting on a man's ability to balance on a one-legged or a two-legged stool before he is given one with three or four legs. Whether, however, a separate primary society should be formed for each major line of co-operative activity or a multi-purpose society, which has been called 'an enthusiast's short-cut', should combine the several functions under a single direction has been debated for several years, during which the multi-purpose society has been growing steadily in favour.

The Reserve Bank of India strongly recommends 'a network of multi-purpose societies which would undertake all activities affecting the daily life and business of the agriculturists and artisans, viz. financing of crop production, supply of the needs of production like seeds, implements and consumer goods, arranging for the organized marketing of the crop, encouraging subsidiary occupations, etc.', as well as serving as a social organization to promote better living and improvement in village conditions.⁷⁰³

The Rayalaseema Co-operative Enquiry Committee in Madras (1946) also came out strongly for such multi-purpose societies.⁷⁰⁴

The 'success' stories in the Reserve Bank's valuable Bulletins on individual multi-purpose societies are alluring, no doubt, though the history of Co-operation in India does not encourage hope of such triumphal progress as the usual pattern.

It is evident that a society which touches its members' lives at as many as possible of the points on which they need help is likely to command greater enthusiasm and interest and also, if well run, to do more to ameliorate their condition than a single-purpose society can accomplish alone. The number of members qualified to serve efficiently on the managing committee or as office-bearers of many village societies is necessarily limited and interlocking directorates are therefore often inevitable between single-purpose societies of different type. In such cases, probably, a single society with different functions would be less burdensome to the officers and the committee.

On the other hand, it has been pointed out, the complexity of the operations of a multi-purpose society demands a higher type of business ability than many villages can furnish. It may also rule out the general participation in the society's working which is so desirable for strengthening the co-operative spirit, though the multi-purpose society does naturally bring members into more frequent touch with the society. The necessarily

complicated set-up of the multi-purpose society also may obscure, until too late, unsatisfactory functioning in one or another line, and the winding up of the whole society might be forced by its failure in a particular important direction.

A minor argument against the multi-purpose society is the interruption and possible harassment of its committee by visitations from representatives of this, that, and the other Department, concerned with one or another phase of its work. Such visits are of course in the members' interest and in that of the close co-operation between Departments which is so desirable, but too great a number of attempts at interference from different points of view must sometimes be trying, as Mr F. W. Wace has suggested.⁷⁰⁵ As Dewan Bahadur Kaji put it in his lecture at Prague in September, 1948.

Departmental administrations have often unfortunately the tendency towards separatism, each Department desiring to evolve its own scheme and its own centres for the furtherance of its special activity for the villager. But the simple needs and simpler life of the villager demand a co-ordinated outlook and a comprehensive approach, so that the villager may not be viewed as a bundle of so many different needs but as a whole.

This objective might promise to be better served by the multi-purpose society but for the major difficulty in connexion with the type of liability, already discussed.* The Co-operative Planning Committee apparently leaned to limited liability for the multi-purpose society, though its stand was not quite unequivocally expressed.⁷⁰⁶

There is no possible objection to combining such functions as those of a better living society with those of a society of any other type, or even of marketing on a commission basis or of purchasing on indent. It can only result in the strengthening of the effort all round. Many rural credit societies have, indeed, taken up other activities, a fact perhaps reflected in the steady rise in

* See pp. 64 ff.

management cost in Bombay between 1939-40 and 1945-6 from 2·3 to 4·4 per cent of working capital, which the Agricultural Credit Organization Committee considered excessive.⁷⁰⁷ It is the adding of functions involving risk like marketing or purchase for sale which cannot, as said, be approved for a society with unlimited liability.

Obviously also, the suggestion of the Reserve Bank that the multi-purpose society be open to all villagers, 'so as to become in course of time an instrument of maximum efficiency for the revitalising of the entire village life, in close collaboration with the village panchayat and the village school',⁷⁰⁸ is impracticable as long as the unlimited liability is retained.

Only where a society is able to raise the funds it requires on a limited-liability basis can an all-purpose co-operative society be formed without too great risk. Otherwise, as already suggested, better a separate credit society and a multi-purpose society for all other purposes.

One caution to be observed in the taking on by a multi-purpose society of added functions is to be sure that enthusiasm does not outrun the members' growth in ability to handle new lines of business. If the failure of co-operative credit societies left many members sceptical on the Co-operative Movement, the failure of a multi-purpose society must have an even more disillusioning effect upon the standing of the Movement, in the eyes of all concerned.

In 1945-6, 6,692 multi-purpose societies had been organized in the United Provinces, mostly by the conversion of village societies. Bombay had 414 at the end of 1946-7;⁷⁰⁹ Bengal in 1945-6 had 218; the Central Provinces and Berar, 104.⁷¹⁰ There are also multi-purpose societies in Madras, the Punjab and Coorg and in Mysore and Travancore,⁷¹¹ most such societies, except in the United Provinces, covering more than a single village.⁷¹²

The Registrars' Conference of 1947 underwrote the Reserve Bank's recommendation in regard to multi-

purpose societies, with the addition of certain functions and the restriction of purchase and sale activity to an indent basis, except that the Registrar might sanction outright purchase for a sound society up to twice the paid-up share capital. The dangers of unlimited liability in this connexion would be obviated by the recommended reorganization of the primary credit society as a rural bank with limited liability.⁷¹³

The Bombay Registrar in his report for 1946-7 praised the confident way in which most societies had tackled the additional lines of work, so that they had come to be regarded as 'a powerful agency capable of catering to the various economic needs of the rural folk'.⁷¹⁴ The Bombay Government, which has accepted the recommendation of its Agricultural Credit Organization Committee that the normal policy should be to organize multi-purpose societies only, and to convert the existing village societies into multi-purpose societies, is granting subsidies to multi-purpose societies of Rs 300 for each of the first three years, Rs 200 for the fourth and Rs 150 for the fifth year, or half the cost of management and propaganda in any year, whichever is less.

There has been prejudice against multi-purpose societies in the Punjab, but a number of such societies of a new type have been organized there from 1945-6, composed at first of ex-servicemen, from whom the proposal came, and their near relatives, though they must later be thrown open to civilians. The maximum share holding is restricted to Rs 500 and the dividend to 10 per cent, to discourage dividend hunting. There were over twenty-five such societies by the end of March 1947.⁷¹⁵

Central Societies

Unions

Several types of unions, those for marketing, purchase and sale, industrial and regional development unions

have been mentioned in connexion with the types of co-operative activity in the primary societies which they are designed to foster. The other types are chiefly supervising unions, institutes and banking unions; the guarantee unions still surviving and the execution of awards unions found in the Punjab being of minor consequence today.

The importance of the question of supervision, both of rural and urban societies, has been discussed. The union of primary societies represents one attempted solution. The Maclagan Committee defined a union as a body of which the only members are the primary societies within a circle of a radius averaging generally about eight miles and at the deliberations of which each member society has a number of votes proportionate to the number of its own members.⁷¹⁶

It described the union's duties as advising on the grant of loans to its constituent societies and supervising their working.⁷¹⁶

It was an unfortunate day for the Co-operative Movement in India when, in 1915, that Committee on Co-operation put itself on record as in favour of the system which had sprung up in Burma under which the union members all shared in the liability for a loan granted to any of them on the union's recommendation. The union's liability was limited; its society members' liability unlimited for their own borrowings but limited for the borrowings of affiliated societies, after the unlimited liability of the defaulting society was exhausted, to the amount represented by their own maximum borrowings during the twelve months immediately preceding the enforcement of the guarantee.⁷¹⁷ The guarantee proved ineffective, as members' liability could be enforced only on liquidation of the society, and the proceeds of a forced sale often did not suffice to meet the society's own liabilities.⁷¹⁸ Also the sliding scale of responsibility based on extent of borrowing put the greatest liability on the weakest members of the union, who naturally had to borrow most.⁷¹⁹

The Burma Co-operative Committee pronounced the guarantee union a failure even in its main function of assessing the credit of affiliated societies.⁷²⁰ That Committee assigned to this mischievous plan a large share of the responsibility for the sorry pass to which Co-operation came in that then Indian Province.⁷²¹

Bombay, the United Provinces, Bihar and Orissa, the Central Provinces and Berar, as well as Bengal, experimented with guarantee unions, but the feature of financial guarantee has been quite generally abandoned. Before the Bombay Supervision Committee's report was published in 1933, the guarantee unions in that Province had been converted into supervising unions or dissolved and fresh supervising unions registered.⁷²² There were still two in Orissa in 1938, both moribund and awaiting cancellation of registration.⁷²³

The suggestion may be offered here in connexion with the Reserve Bank's *Statistical Statements* that, in view of the criticisms justly levelled against guaranteeing unions, it would be desirable to give separate figures for the supervising unions which retain the guaranteeing feature, if any, and those which do not. The present heading, 'Supervising and Guaranteeing Unions', may convey a misleading impression.

In the light of experience with guaranteeing unions, it is not difficult to understand the Madras Co-operative Committee's opposition to the tentative proposal for a compulsory pool of the statutory reserve funds of primary societies in the area of each central bank and of the central bank itself, for the rehabilitation of weaker societies. It did, however, recommend, in view of the abnormal circumstances in 1939-40, a voluntary pool for the purpose, to be in operation for three to five years, explaining that it did not propose helping thus societies whose losses or bad debts were due to fraud or gross mismanagement.⁷²⁴

Mr F. W. Wace in 1939 described the Punjab's execution of awards unions as 'an excrescence on the Co-opera-

tive Movement, necessary because societies lacked the inclination and the knowledge to follow up awards through the civil courts'.⁷²⁵ Such unions were paying as a rule a special bailiff to expedite their work.⁶⁶¹ There were thirty-eight such unions in the Punjab in 1945-6, but only a few were doing any work, most of the work of execution falling on the Co-operative Department.

Making unions of primary societies responsible for the function of supervision of their member societies is in line with co-operative principles and also with the insistence of the MacLagan Committee that supervision should devolve on the primary societies themselves.⁷²⁶ The supervising union is still important. There have been such unions of 20 to 40 societies each in Madras since 1910, even before the Act of 1912 gave them any legal status. The Madras Co-operative Committee considered the ideal for a union to be about twenty-five affiliated primary societies in a radius of about seven miles, to ensure local knowledge, though many unions had a larger area. Their objects were to develop and supervise their affiliated societies and to recommend to the Central Bank the loan applications of their societies.⁷²⁷

The number of unions in that Province has fallen from about 450 in 1929-30 to 253 in 1946-7,³⁷⁰ still over half the country's total in 1945-6, Bombay coming next with 118; among the smaller Provinces and States Coorg with 13 and Travancore with 27 unions were outstanding. There were no supervising unions in 1945-6 in Assam, Bengal, Delhi, the North-West Frontier Province, Orissa or the Punjab; and among Indian States they were reported only in Baroda, Bharatpur, Bhopal, Hyderabad and Travancore, with three in the eight small States lumped together in the Reserve Bank's table.

There has been some complaint in Madras of overlapping of control between the supervising unions and the central banks. The Co-operative Committee's recommendation that only representatives of A and B class

societies be eligible for election to the governing body of a union⁷²⁸ is good and should help to ensure high standards.

The Travancore Co-operative Committee recommended that where the supervising unions were functioning satisfactorily they might be the sole recommending authority for loan applications. This would no doubt strengthen their sense of responsibility, but it could not relieve the central banks and other financing institutions from their obligation of careful scrutiny of loan applications.⁷²⁹

Supervising unions are retained in Bombay under the new set-up for supervision, the unions and their staff being under the direction of the District Supervision Committees recently formed, with representatives of the Department as well as of the unions and non-credit primary societies.⁷³⁰

Cochin had twelve supervising unions in 1945-6, three of them new.⁷³¹ The Government gave the usual grant of Rs 125 per union. The Registrar remarked in his 1946-7 report that 'the unions were generally working fairly well with the limited resources at their disposal'.⁷³²

The Provincial Co-operative Institutes are not unions under the definition of the MacLagan Committee,* but they are so closely related in composition and in some of their functions that they may be considered here. Such Institutes date from 1915 and now are found not only in most of the major Provinces but in the larger Indian States as well; but their functions differ somewhat from one Province to another, as do their effectiveness and importance in the co-operative picture.

The overlapping of the Institutes' functions with those of the Co-operative Department and the central banks which is quite generally found is not in the interest of efficiency and emphasizes the desirability of reorganization with demarcation of activities on logical lines, with

* See p. 217.

only such deviation from uniformity between Provinces and States as local conditions may dictate.

The principal functions of the Provincial Institutes are the imparting of co-operative education, the conducting of propaganda, the furnishing of a focus for non-official opinion affecting the Movement and serving as a liaison body between the Co-operative Department and the honorary workers upon whose ability and interest the success of Co-operation as a popular movement in no small part must rest. In certain Provinces, as in the Punjab, audit as well as the more common one of supervision has been a function of the Institute.

The co-operation of the Institute and the Department is obviously desirable in the educative effort, which, with the closely related one of supervision, is the former's most important function. In certain Provinces, however, education has been under the direct control of the Department, as in the North-West Frontier Province, Sind,⁷³³ Coorg,⁷³⁴ Cochin, Gwalior,⁷³⁵ etc. In certain Provinces and States, education is conducted partly by the Department and partly by the Institute, as in the Central Provinces⁷³⁶ and in the Punjab, where classes have been held by the Department's education staff paid in some cases by the Punjab Co-operative Union.⁷³⁷ In Indore, in 1946-7, co-operative training classes were reported to be run by the Co-operative Department under the auspices of the Indore Co-operative Central Association.⁷³⁸

In relatively few Provinces is the Provincial Institute taking its proper place as the spear-head of the educational drive. In Bengal, the Co-operative Training Institute and five peripatetic units hold refresher courses for Department officers and impart training in Co-operation to primary society members.⁷³⁹ The Bihar Co-operative Federation holds an annual three-month training camp for Department officers and others. The regular Training Institute in that Province, which functioned from 1928-34 with full-time lecturers, was later revived and in 1945 was sanctioned for five years for training the cane

development and marketing unions' and cane-growers' societies' officers and staff.⁷⁴⁰ In Berar the Institute is a purely educational and propaganda body, the banks there having their own staff for inspection and supervision. In the Central Provinces the central banks, each of which must belong to the Institute of its respective area,⁷⁴¹ have local educational and supervision committees working as agents of the Institute concerned.⁷⁴² The four regional Institutes in the Central Provinces have the responsibility for the education and supervision of primary societies.⁷⁴³

Orissa's Co-operative Training Institute has held classes for officials and non-officials.⁷⁴⁴ In 1942-3, 273 rural training classes were held and the managing committees and secretaries of 413 societies were trained, but in 1945-6, apparently, only one three-month class for bank supervisors was held.

Madras has a Central Co-operative Institute, which chiefly trains candidates for appointment as Junior Inspectors. Of the year's course, nine months are spent in the Institute, three in the Districts. A few non-official candidates and also trainees from other Provinces are accepted for a moderate fee. Cochin sends one member of its co-operative staff each year.⁷⁴⁵ There are also four *mufassal* Institutes in that Province, training candidates seeking employment in co-operative institutions, central banks, stores, etc., and conducting six-week courses for employees of non-credit institutions. In 1946-7, 433 candidates were trained. The educational system was revised by the Provincial Co-operative Union in 1946-7.⁷⁴⁶

The Punjab Co-operative Union, which celebrated its Silver Jubilee in July 1943,⁷⁴⁷ was never under the Registrar's control. Representing nearly 27,000 primary societies, it was the chief non-official co-operative institution in the Province.⁷⁴⁷ It had been to a considerable extent responsible for developing and controlling the Movement there, in close touch with the Co-operative Department.⁷⁰⁵ Between 1939-40 and 1943-4, 13,307 had attended classes conducted by the Department's education

staff for the office-holders of societies. Classes had been held also for secretaries and for members of industrial societies, for execution agents and liquidators and inspectors.⁷³⁷

An advanced co-operative training class was started in Coorg in 1947-8. Training classes of one week have been held in twenty-one centres for society members as well as managing committees and clerks.⁷³⁴

Co-operative education as a function of the Institute has advanced greatly in Bombay in the last couple of years. In accordance with the recommendations of the Government's Co-operative Training and Education Committee, headed by Sir Janardan Madan, the Bombay Provincial Institute's education and training were revised. It was made the sole agency for the training of Department officials as well as non-officials. Its Co-operative Training College at Poona was inaugurated in June 1947, to train the higher staff of the Co-operative Department (a long step forward) as well as that of co-operative institutions. Only graduates are admitted to its course, on completion of which a 'Higher Diploma in Co-operation' is awarded. There are also three Regional Schools in the Province for its three linguistic divisions, which give co-operative education to supervisors, bank-inspectors, assistant co-operative officers and the secretaries of big multi-purpose societies and purchase and sale unions, and award a 'Higher Co-operative Certificate'. Educational Supervisors, posted in the Districts from 1 July 1947, organize training classes for secretaries and managing committee members.⁷⁴⁸ Whether or not the Bombay Provincial Institute could today challenge the claim made in 1939 for the Punjab Co-operative Union as being 'undoubtedly a far more powerful and influential body in the matter of control of policy and general development than other corresponding bodies in other Provinces',⁷⁴⁹ it can at least claim the lead today in educational prestige.

Short refresher courses for official workers to keep

them enthusiastic and abreast of new co-operative developments and methods have been an important feature of the educational work in many Provinces.

Whether supervision should be the responsibility of the Provincial Institute or the financing institution is a moot point. The central bank is naturally interested in the financial soundness of its member societies, but its interest and theirs are sometimes different. The Institute, if it has less of a stake in the societies' conduct, can bring a more detached and impersonal consideration to bear upon their problems and, if sufficient funds are at its disposal, supervision admirably complements the Institute's efforts in the fields of education and of propaganda. Professor V. G. Kale and Shri V. L. Mehta wrote in a note dissenting from the recommendation of the Bombay Supervision Committee (1933) that the District Boards of Supervision which it approved should be separate from the Institute:—

Neither education nor training nor propaganda can be useful or effective unless associated with the duties of guiding and advising primary societies in their day-to-day work, and an Institute which is cut off from organic contacts with the respective local federations of societies will languish and wither away inasmuch as it will have no basic soil into which it can throw its roots and from which it can draw its sustenance.⁷⁵⁰

The District Boards in that case, they felt, would be virtually if not directly controlled by semi-local Co-operative Department officers, whose proper function was not to conduct registered societies but to examine their working and tender advice and help from outside.⁷⁵⁰

In certain Provinces audit has been combined with the supervision function of the Institute, as formerly in Burma,⁷⁵¹ in the Punjab,⁷⁵² and in Bihar and Orissa.⁷⁵³

Propaganda is another function eminently suitable for the Provincial Institutes, though in some of the Provinces where most active propaganda has been carried on, the Co-operative Department has played a great part in it. The methods range from co-operative stalls and shows

in exhibitions⁶²³ to periodical broadcasting, illustrated lectures, the arranging of group conferences, etc. In the United Provinces, where the 122 such conferences held in 1945 were attended by 63,749 members, not only were the aims and objects of Co-operation presented and propaganda for a savings drive carried on, but also exhibits and sports were arranged as popular features.⁶⁵⁴

District Co-operative Conferences of different groups of officials and non-officials were held in Madras in 1946-7.⁷⁵⁴ A resolution passed at the Bombay Provincial Co-operative Conference (April 1948) called for the appointment of a special publicity officer to be attached to the Institute, to see that co-operative news made the headlines.⁷⁵⁵ Propaganda for Co-operation was conducted among the armed forces and classes have been held, as in the Punjab⁷⁵⁶ and the United Provinces, for selected servicemen who might be expected to carry the gospel of Co-operation and perhaps to serve the Movement actively on returning to their villages.

A number of the Provincial Institutes publish magazines on Co-operation, some in English, some in the regional languages. To mention but a few: The Punjab Co-operative Union and the Madras Institute each publish an English monthly. The regional language federations in Madras, subsidized by the Provincial Co-operative Union, publish journals in Tamil, Telugu, Kannada and Malayalam.⁷⁴⁶ The Travancore Co-operative Committee found the Institute's publication of a Malayalam monthly its only work in 1934.⁷⁵⁷ The Cochin Institute also publishes a Malayalam monthly.⁷⁵⁸ Orissa has an English periodical, the *Orissa Co-operative Journal*, launched in 1948. Elsewhere co-operative quarterlies are published in English, as in the United Provinces and Bombay. Steps were taken in 1947-8 to start journals in the regional languages at Bombay's three Regional Schools.³⁷² The Co-operative Institute in Kashmir also publishes a quarterly, in English and in Urdu.⁷⁵⁹ The Baroda Co-operative Institute's

Gram Vijnan is devoted to Co-operation, agriculture and village uplift.⁷⁶⁰ In Coorg, the monthly co-operative journal in Kannada is published by the Provincial Bank.⁷³⁴

The quarterly *Indian Co-operative Review*, 96-page journal of the All-India Co-operative Institutes' Association and the Indian Provincial Co-operative Banks' Association may be mentioned in this connexion. It completed its fourteenth volume in 1948.

Co-operative rallies are more frequently held in some Provinces than in others. International Co-operators' Day is quite widely celebrated, but to judge from the number present at the one which I attended at the Bombay Provincial Institute in 1947, the response is not what one would expect from a movement which should evoke enthusiasm. Member apathy may be less apparent in the *mufassal*; from other parts of the country enthusiastic gatherings have been reported.⁷⁶¹

Several of the Provincial Institutes, notably those in the United Provinces⁷⁶² and Bombay, Bengal and Hyderabad, have co-operative libraries.

The importance of introducing Co-operation in the normal schools and of lectures by co-operative officials in high and middle schools has been recognized in several Provinces in connexion with the propaganda effort, but a caution was given by Mr Hubert Calvert in connexion with the normal schools. It would, he wrote, do more harm than good unless it could be driven into them most thoroughly that the school-master's attitude towards pupils is the last thing Co-operation wants.⁷⁶³

A valuable service of the Institutes is the furnishing of a focus for the activities of non-officials who are interested in the cause of Co-operation. The importance of volunteer services to the Indian Co-operative Movement has been great. Not only have some rich men joined societies of their poorer neighbours to guide their efforts and strengthen public confidence, but instances have not been wanting of officers financing a society

themselves in case of need.³¹⁴ The officers of agricultural primary societies, except the secretary, uniformly serve without remuneration and, in a great many cases, perhaps in most, the directors of the central and Provincial banks give their services free. As has been well said, 'The services of the villagers embodied in the structure are a greater miracle than the structure itself'.⁷⁶⁴

Small landlords living out in the Districts not only make good directors of central banks, but also can furnish excellent supervision to neighbouring primary societies where they will undertake it. The Nicholson Report of 1895 emphasized this point:—

The future of rural credit lies with those who, being of the people, live among the people, and yet by their intelligence, prescience and energy are above the people . . . The whole of this report might be summed up in two words: 'Find Raiffeisen'.⁷⁶⁵

Honorary Organizers have played a prominent role in the Movement almost from the first, their importance varying considerably, however, from Province to Province. Except in Bombay, the response of the educated class to the need of the Movement for disinterested volunteer service has not been proportionate to the opportunity, and even there of recent years there is an apparent falling off in numbers of new recruits, if not in the enthusiasm of the many veteran servers of the Cause. It is noteworthy that almost all the outstanding honorary workers are men in late middle age. There can be no more important objective of the Institutes' propaganda drive than to recruit the active interest and support of men and women of public spirit, without whose backing the Co-operative Movement of the future will lack a vital factor. Voluntary service in the Movement offers an ideal occupation to retired civil servants, but it also demands the zest and the idealism of youth. 'The dearth of local leadership, unselfish and informed' was given by the Provincial Registrar in his annual report

for 1928-9 as 'one of the main reasons for the collapse of rural credit co-operation in Burma'.⁷⁶⁶ It is unnecessary to point out the potential benefit to India and Pakistan from the opportunity which the Co-operative Movement offers for training in leadership.

It must be recognized that the Provincial Institutes, with their honorary workers, still represent an approach to the Co-operative Movement from above, no less than the official approach, but, as pointed out in the Horace Plunkett Foundation's *Year Book of Agricultural Co-operation* for 1931:—

. . . the essential difference is that they are not official but purely voluntary in their constitution and purpose. Nor are they in competition with the official hierarchy of the societies, but in time should come to be a most valuable reinforcement for all that the Registrars and their staff and the official Unions and Federations are trying to do for the establishment of a self-reliant Movement.

The expenditure of the Provincial Institutes varies of course considerably with the functions undertaken, being highest in the Provinces where audit and supervision are part of their duties. They derive their support mainly from fees and contributions from members and from Government subsidies, which vary widely from Province to Province. There is complaint in some quarters that the support from the Government is too inadequate to permit the Institutes to discharge their functions properly. In some cases, such as Bombay, the Punjab and Cochin, the Institutes derive their support partly from levies on societies' profits where these are above a stipulated minimum. This device seems admirably designed to integrate the Movement and to make the Institute the popularly supported organization which it should be if its non-official character is to be retained. It is also fully justified where the Institute is discharging functions of such importance to the societies' success as co-operative education, supervision and/or audit, especially

where the societies concerned have an effective voice in the conduct of the Institute.

In some Provinces the Government grants to the Institutes are generous. The United Provinces Registrar, for example, mentioned in his annual report for 1944-5 the sound financial condition of the Provincial Co-operative Union.⁷⁶⁷ The Institutes in the Central Provinces and Berar and in the Punjab, however, are examples of Institutes apparently requiring more assistance than they have always received, though in the Punjab Government help had been forthcoming of over three lakhs of rupees a year.⁷⁶⁸ The salary increases necessitated for its hundreds of employees by the rising living costs, coupled with fixed audit fees, seem responsible for the weak financial position of the Union in that Province.⁷⁵²

The All-India Co-operative Institutes' Association, the 1931 session of which the present writer attended at Hyderabad, was formed in October 1929, to serve as a common platform for the exchange of opinions among the several Institutes and to give their united views greater weight for the country as a whole.⁷⁶⁹ Its recommendations represent a synthesis of non-official opinion and it is one of the chief co-ordinating agencies for the Movement, especially important in the years when the Registrars' Conferences were not held.

The amalgamation of the Conferences of Provincial Institutes and of Registrars of the Indian Republic, discussed in the summer of 1948,* has since been effected. This closer integration is good, provided the non-official element retains its vigour and initiative.

There is still another type of union, the banking union, brief consideration of which has been left to the last because its usual functions are virtually those of a central bank, from which it differs chiefly in name and in the small size of the area covered, and in the fact that banking unions generally confine their membership to primary societies, while individuals as well as societies are usually

* See Addendum to Chapter VII.

admitted as members of central banks.⁷⁷⁰ Madras, however, has had banking unions with both individuals and societies as shareholders since 1912.⁷⁷¹

The Punjab in 1943-4 had 68 banking unions as compared with 48 central banks. In Mysore, where the banking unions had depended for their finance upon central banks or the Provincial bank, they had not worked well and the Government in the early thirties ordered them to be wound up.⁷⁷² Bombay in 1946-7 had only three banking unions.⁷⁷³

Where the banking union has served its societies in other than the credit line, great success has sometimes been attained. The striking success of the Kodinar Banking Union of Baroda, among particularly backward people, was written up by the Agricultural Credit Department of the Reserve Bank of India in its first Bulletin in 1937 and doubtless gave an impetus to the idea of multi-purpose societies throughout the country. That Union had not only financed member societies but had supervised them, supplied their agricultural requirements, hired out machinery, arranged for the sale of produce and educated their members, insisting always on self-help, and thereby had wrought the greatest transformation in the area.⁷⁷⁴ The history of the Panjavar Co-operative Banking Union in the Punjab, told in Reserve Bank Bulletin No. 4,⁷⁷⁵ is another 'success' story to convince the most sceptical of what the 'Co-operative Commonwealth', which is the Congress Party's goal for India, may hold within its gift in general well-being. The Sittang Colonies Banking Union in Burma is the subject of another Reserve Bank Bulletin.⁷⁷⁶

The optimum size of the banking union has been a moot point. The smaller the unit, the more effective supervision is likely to be, but the more difficult the securing of able management, and the attracting of adequate deposits. The Reserve Bank has favoured a small area, approximately a *taluka*, but it mentions that this proposal has not been favourably received in co-opera-

tive circles, for the reasons mentioned and especially because too small a union cannot afford to pay an efficient staff.

The financial problems of the banking unions differ little, if at all, from those of the central banks, and so need not be separately considered.

Central Banks

Neither unions nor central banks were included in the Act of 1904, although the latter had formed part of the Raiffeisen scheme. They sprang up soon after the passing of that Act, but, like unions, they were without specific legal sanction until the passing of the Act of 1912, which defines their purpose as to facilitate the objects of co-operative societies. -

Central banks, as at present constituted, existing solely to lend money and being managed on purely business principles, are not, it has been claimed, strictly co-operative institutions, but they form the necessary connecting link between co-operative distributors and collectors of funds and the money market.⁷⁷⁷ The primary societies could not by themselves attract enough funds, and the joint stock banks have been reluctant to deal with them directly because of the special nature of their business, the extent to which they have relied on personal credit, and the difficulty of supervising them;⁷⁷⁸ so a superstructure in the co-operative scheme is essential.

Because they have registered societies as members, central banks, under the Act of 1912, must have limited liability. This may extend to the face value of shares or to a multiple thereof, as in the German societies.⁷⁷⁹

The MacLagan Committee recommended that a central bank cover as large an area as was compatible with convenience and efficiency, but thought a central bank might be expected to deal ordinarily with at least 200 to 250 societies.⁷⁸⁰ The areas of central banks are usually larger in Bombay, the Central Provinces and Berar and

Madras than they are in Bengal, Bihar, Orissa and the Punjab.⁷⁷⁰ Diwan Bahadur K. D. Mudaliar in 1901 found the area of the central banks in North Orissa too small for economic administration.⁷⁸¹ Similarly in Gwalior, Professor V. G. Kale found the area of some too small for business sufficient to cover the administrative cost, as well as allocation to reserves, and to leave modest profit.⁷⁸² In Madras, the usual area has been the Revenue District.⁷⁸³

There are no longer central banks in Sind, where they were amalgamated with the Provincial bank in the middle thirties and the Provincial bank serves the societies directly.⁷⁸⁴

One factor of importance is the location of central banks at important centres of trade so that they may be linked up with the natural economic arrangements.⁷⁸⁵

From the standpoint of co-operative principles, the federal type of central bank is the best. The MacLagan Committee opposed central banks' having any individual members,⁷⁸⁶ but though there have in the past been federal central banks in Bengal and the Punjab and, to a smaller extent, in the United Provinces and Bihar and Orissa, this recommendation of that Committee has not been widely followed. They have, however, been reported to work well where their area of operations is relatively small and they serve a compact group of well-established societies. The Madras Committee recommended the elimination of individual shareholders from the constitution of central banks.⁷⁸⁷

The old capitalist type of central bank with only individual share-holders had virtually died out by 1930, though in one instance in the United Provinces a rural bank with money-lenders as shareholders, lending to neighbouring societies, was reported to have worked well.⁷⁸⁸

For the country as a whole, owned capital formed in 1945-6 only 18·8 per cent of central banks' working capital; share capital represented 6·8 per cent, the statu-

tory reserve 5·6 per cent and other funds 6·4 per cent. The MacLagan Committee held that share capital should be as large as possible, consistent with the efficient working of the bank, and laid down the rule that the share capital of central banks plus their reserve should be at least 12·5 per cent of total liabilities.⁷²⁴ At the time of their report, owned capital averaged 14·8 per cent of total liabilities, the corresponding figure for Indian joint-stock banks being 13·9 per cent and for forty-eight leading joint-stock banks in England, 7·6 per cent.⁷²⁵ There has been for many years increased appreciation of the value of reserve funds, thanks to the training the Co-operative Movement has given, though at first many central banks were eager to distribute their profits in the shape of as large dividends as possible.⁷²⁶

The Reserve Bank has drawn attention, however, to the fact that the reserve funds have sometimes been created without making adequate provision for bad debts, and so many turn out to be partly fictitious.⁷²⁷ The Punjab central banks had in 1943-4 Rs 48·26 lakhs in their Bad and Doubtful Debts Fund, an increase since 1938-9 of almost ten lakhs. Some central banks in the Province had in this fund twice or thrice the amount due from D class societies and those under liquidation; the position of others was less sound.⁷²⁸ Delhi's one central bank, whose financial position has been very sound, had a suspense interest account in 1945-6 affording adequate cover against interest due from D class and under liquidation societies, in addition to a large Bad and Doubtful Debts Reserve.⁷²⁹

The share capital and reserve alone of central banks in 1945-6 was almost exactly the recommended minimum of the MacLagan Committee, having been 12·4 per cent. The owned capital of all the central credit societies in the United Provinces in 1944-5 was 36 per cent of their working capital.⁷³⁰

Direct Government assistance has been little relied on by central banks in general, except where there is no Pro-

vincial bank, as in Orissa before October 1948. The Provincial Government there in 1945-6 lent Rs 217,000 to the solvent central banks for financing their societies; and Rs 96,000 to good primary societies affiliated to the several insolvent central banks.⁷⁹⁵

Loans and deposits from the Provincial bank or from other central banks are common, but overwhelmingly the central banks' greatest source of funds for the country as a whole has still been individual deposits, which in 1945-6 represented Rs 2,387·8 lakhs out of a total working capital of Rs 4,507·5 lakhs, or 53·0 per cent, compared with 60·4 per cent in 1929-30. This ratio for the several Provinces and States is an index, though not a completely accurate one, of the public confidence which their co-operative central banks enjoy. In Bombay the figure for 1945-6 was 66·8 per cent; in Bhopal it was 16·1. But in the Central Provinces and Berar where, though the position had improved, the Movement had been in a very bad way indeed, the management of a number of central banks had been superseded and they were still being administered under the rehabilitation scheme, individual deposits in 1945-6 represented 51·7 per cent of the working capital. The Punjab central banks were generally able to attract deposits at between 2 and 2½ per cent, which compared favourably with the rates of joint-stock banks.⁷⁹⁶

The working capital of central banks has been augmented in many Provinces by the Government authorities permitting State Railways and other Government Departments and local bodies such as municipalities, *taluka* boards and district boards, to deposit their surpluses in them.⁷⁹⁷

While the Co-operative Rules in Bombay Presidency have restricted the borrowing capacity of any society with limited liability to eight times the share capital plus the reserve fund, central banks have been allowed to incur further liabilities to the extent of twice the owned capital, provided the additional amount is invested in Govern-

ment securities to be lodged with the Provincial bank.⁷⁹⁸

It may be mentioned that the MacLagan Committee believed central banks were justified in accepting current accounts only where adequate banking facilities were absent.⁷⁹⁹ The acceptance of deposits involves serious management problems for the central banks, as the requirements of the primary societies, especially of the rural type, often cannot easily be made to fit in with the bank's liabilities to its depositors. Loans to agricultural societies usually are payable only at harvest, with the result that the central banks have large amounts of surplus capital during the slack months from August to February.⁸⁰⁰ A glut of deposits has been a common recent complaint of the central banks.

During the war years the problem should have been early recognized, but was not always, as one, not of attracting deposits to the central banks, but of lowering their interest rates to a point where deposits beyond profitable dimensions would be discouraged.⁸⁰¹ Such a scaling down of interest rates, of course, presupposes sufficient fluid assets to meet the demands of all who react to the change by demanding the return of their deposits, a condition not always present.⁸⁰² As Diwan Bahadur K. D. Mudaliar has pointed out, 'the inability of any small central bank to repay the deposits on the due dates may precipitate a run and be likely to affect the other banks, though they may otherwise be good, as happened in Orissa and elsewhere'.⁸⁰³

The reduction of interest rates to discourage deposits has sometimes actually defeated its purpose by improving the bank's credit standing, so that outside deposits have continued to be made.⁸⁰⁴

To some extent the development of purchase and sale societies, stores, and co-operative societies of other types has reduced the seasonal fluctuations of purely agricultural credit and offset the decreased need of the agricultural credit societies for seasonal finance, due to the improvement in their position resulting from higher prices

of agricultural produce. Cochin's central bank started a house construction scheme in 1946-7,⁸⁰⁵ which doubtless absorbed some of its surplus cash, though it is of dubious wisdom for a central bank to tie up its funds in such a long-term investment. It has been the practice of a few central banks in the Central Provinces and Berar⁸⁰⁶ to utilize their surpluses on short-term and medium-term loans on first-mortgages of agriculturists' lands for crop-raising and the purchase of cattle and implements. Such direct loans, even to the limited extent permitted, seem objectionable on this and several other counts. They represent an invasion of the primary societies' proper field for short-term loans and of that of the land-mortgage banks for loans for longer periods; if loans are made direct to primary society members, their ties with their own society are thereby weakened and the dangers of double borrowing are introduced; if only to non-members, and these are credit-worthy from the primary societies' standpoint, such loans seem to put a premium on non-membership in primary societies.

Sight should not be lost of the lesson that the sinking of short-term capital in long-term loans all but brought the movement on the rocks in Bihar,⁸⁰⁷ in Northern Orissa, in the Central Provinces and Berar⁸⁰⁸ and elsewhere, during the depression.

Investments of surplus funds in Government securities and in other central co-operative societies, while not highly profitable, are a safer recourse than some of the investments to which the central banks have turned.

Diwan Bahadur Mudaliar has pronounced too much dependence on short-term deposits 'the fundamental weakness of the present co-operative banking structure'.⁸⁰⁸ He favoured supplementing such deposits by long-term money raised through the floatation of debentures, with or without Government guarantee or by Government loan,⁸⁰⁹ but, where there is a Provincial bank, the issue of debentures by central banks should not be necessary.

The earlier objection, as by the MacLagan Committee,⁸¹⁰ to central banks doing regular banking business—accepting current and savings as well as fixed deposits, making remittances, collecting bills, cheques, hundies, dividend warrants, etc., issuing drafts and hundies, offering safe custody of valuables and sometimes loaning to members against tangible security such as fixed deposit receipts, Government paper, gold, silver and agricultural produce⁷⁹¹—has been quite generally waived. Bombay, in rejecting the Gadgil Sub-committee's proposal for an Agricultural Credit Corporation for the Province, has accepted for the Co-operative Department and institutions the role assigned to that Corporation by the Committee. In 1946-7, the District Central Banks in that Province advanced crop finance loans at $4\frac{1}{2}$ per cent to parties to proceedings under the Bombay Agricultural Debtors' Relief Act, both to members through their societies and to non-members.²⁹⁴ This should help to take care of the problem of surpluses.

One of the most serious aspects of that problem has been the temptation to central banks eager for profitable investments to relax their credit policy or even to encourage the taking in prosperous times of more credit than has been required. Mr F. W. Wace cites the case of a village society member upon whom a central bank director had urged a large loan for taking up a line for which he was not qualified, with the result that he had been almost ruined and was still in debt.⁸¹¹

In some cases the attitude towards general banking business of the central banks has swung too far in the opposite direction. The Bombay Agricultural Credit Organization Committee (1947) mentions a growing indifference on the part of some central banks to the needs of their affiliated village primaries. Their business with individual borrowers, very often traders, is almost as extensive as that with the societies, and attended with less risk and difficulty. That Committee declared:—

This tendency has to be firmly curbed if the central banks are not to become useless for the purpose for which they were organized, and we hope that no considerations of autonomy of the co-operative institutions will be allowed by the Government or the co-operators to interfere with the fundamental need for seeing that the central banks perform the duties for which they were organised, efficiently and wholeheartedly.⁸¹²

This difficulty is not peculiar to Bombay. The Gwalior Registrar complained of it in his 1944-5 report.⁸¹³ A table in the Reserve Bank's graphic review, *Thirty Years of Co-operation in India*, shows that only 36.9 per cent of the working capital of all central societies in 1944-5 was used for co-operative purposes.⁸¹⁴ The Nanavati Committee ascribed this difficulty in Bombay to the preponderance of urban elements in the central banks' directorates.⁸¹² It is interesting to note in this connexion that the Berar Co-operative Enquiry Committee in 1939 urged the unsoundness of the position where 'a concern in which the person who finds the capital has no voice while the person who spends it has the position of supreme command'.⁸¹⁵ The Nanavati Committee recognized as 'an occasional equally dangerous weakness the rural elements having the upper hand'.⁸¹² The proper balancing of interests in the directorate of a central bank should not be beyond possibility.

The need for unprofitably large cash balances to enable the central banks to meet current demands has been partly obviated in all the major Provinces, as also in Hyderabad and Mysore, by the apex or Provincial bank, which stands to the central banks in much the same relation as they do to the primary societies. Practically all central banks have enjoyed cash credit or overdraft arrangements with their Provincial bank and occasionally also with local branches of the Imperial Bank of India.⁸¹⁶

The management of most central banks at the present time would seem to conform more closely to sound banking practice than in 1915 when the Maclagan Committee complained that only a minority of the more prudent

central banks had kept most of their cash credits to meet calls by depositors, the others having loaned to societies practically the whole of their credit, with quite inadequate provision of fluid resources.⁸¹⁷

Sound banking principles for central and Provincial banks were laid down in the Reserve Bank of India's letter of 12 June 1939. It dealt particularly with 'the distribution of assets so as to maintain adequate cash and fluid resources; the maintenance of an adequate margin between borrowing and lending rates so as to build up strong reserves; the proper treatment of unrealized interest; proper scrutiny of, and provision for, bad and doubtful debts; the confining of business generally to short-term loans; separate indication of long-term loans and overdues of principal and interest and, in general, proper and accurate presentation of the affairs of the bank in the balance sheet'.⁸¹⁸

Judged by the criterion that, other factors apart, a bank's total borrowings should not exceed ten times the owned capital and reserves, a number of central institutions fall short of efficiency and the deficiency of individual banks in this regard has to be called to the attention of the authorities concerned by the Agricultural Credit Department of the Reserve Bank of India, where the individual balance sheets of all the important central institutions are reviewed and analysed. It thereby renders a valuable, if thankless, service to the Co-operative Movement.

The Reserve Bank objected in its review for 1939-40 to the central banks generally working on an extremely low scale of fluid resources, giving out almost 90 per cent of their borrowed funds, which totalled 77 per cent of their working capital.⁷⁹¹

It is, of course, highly important that sound co-operative and banking principles be observed by the central co-operative financing institutions. Primary credit societies able to function on their owned capital and local deposits are a remote objective for India and Pakistan in general.

But it needs to be borne in mind that the primary society is the corner-stone of the Co-operative Movement. All the central societies exist primarily to serve it and their success as co-operative institutions depends upon their guiding their conduct accordingly. The Bengal Committee on Co-operation laid down as the criterion of success of a central bank, not its own record of deposits attracted and costs pared, but 'the efficiency of the working of village societies under it and the growth of a real co-operative spirit among the members of village societies, resulting in their economic improvement'.⁸¹⁹

This is in line with the pronouncement of the MacLagan Committee in 1915: '... we regard the benefit of the primary societies as the main object, the central banks and other such institutions being merely a machinery accessory to it.'⁸²⁰ The central banks in Bihar and in Orissa, as in the Central Provinces and Berar and elsewhere, have learned the hard way that there can be no prosperity for the financing institution unless the condition of the primary societies which look to it for funds is sound.

That the greater relative importance of the primary societies is not always appreciated is sometimes evident, as in the Report of the Berar Co-operative Enquiry Committee, published in 1939. That Committee concedes towards the end of the report 'the patent fact that the primary society, and not the central bank, is the pivot of the Movement and that until and unless action is taken for the revival of the primary society there can be no life in the Co-operative Movement'.⁸²¹ But the position taken earlier in the report is that the central institutions must be kept alive at all costs; the implication that the well-being of the primary societies is less vital seems to reflect a fundamental misconception. The Committee remarked in defence of its lottery scheme for the rehabilitation of the central banks: '... if the Movement is not to be liquidated, the central banks must be kept alive and must be rehabilitated. From there will radiate rays of life to

the societies. New societies will spring up, but the body of the Co-operative Movement will be kept alive.'⁸²²

Much as a well-managed central bank can contribute to its primary societies by a wise credit policy and careful supervision, the giving to the central bank of the more important position seems to be basically of the same nature as the totalitarian assumption that the state counts first, the well-being of its citizens being assumed to rest primarily upon that of the state. The primary societies are not the superstructure of the Co-operative Movement, but its foundation, and any developments which do not rest solidly upon their strength are floating in thin air.

The Reserve Bank in its review for 1939-40 was emphatic that in the interest of the safety of the central banks' own funds, they should take a genuine interest in the well-being of their affiliated societies, through close supervision of their affairs.

It is only if the central banks come forward actively to help in the process that the primary societies can hope successfully to perform the functions of raising the moral and material standard of their members and unless the societies do so, there is no assurance that the Movement will emerge from the morass into which it has fallen, or having emerged, will not again relapse into a similar state.⁸²³

It is convinced that the delegation by the financing agency of the education of primary society members and the supervising of the societies' working has not conduced to efficiency.⁷⁰⁸

In some sections, e.g. Orissa, the central banks have been looked to to organize societies.⁸²⁴ The Madras Committee expected the financing organizations to take a larger share in future in the movement and marketing of crops and to 'encourage, stimulate and finance co-operative societies for crafts and cottage industries'.⁸²⁵ In Baroda, three out of the eight central banks had undertaken non-credit work by 1944-5, distributing rationed supplies, selling the products of the members of several societies, and supplying fertilizers and pure seed

to societies.⁸²⁶ Most Bombay central banks, during the war and since, have undertaken the purchase and sale of controlled articles, either acting as Government agents or opening fair-price shops or financing societies doing supply and distribution work.⁸²⁴

The general management of a central bank is in charge of a board of directors elected annually, or, in some cases, triennially,⁸²⁷ on the basis of one member, one vote, at the general meeting, which is the ultimate authority in this as in other types of co-operative societies.⁸²⁸ The requirements for a director of such a bank were described by the MacLagan Committee, which held that the work called less for technical skill than for ordinary probity and knowledge, and should be well within the capacity of any professional man.

He needs only to have a general knowledge of money rates and to fix his own to produce a required margin of profit; he should be careful to forecast the probable receipts and demands from societies, to maintain careful accounts, and to see that his working capital is regularly employed and that sufficient fluid resource is always kept available.⁸²⁹

There have been some electioneering abuses in connexion with election to the boards of directors. Communal considerations are reported to have made difficulties, as in the Punjab and Berar. The Committee on Co-operation for Berar reported that candidates had sometimes promised favours and, if defeated, had embarrassed the bank by inducing depositors to withdraw their deposits. Also irresponsible and incompetent people had sometimes been put in; so much so that the Committee went so far as to pronounce 'undiluted democratic methods . . . unsuited to the running of banking institutions, the more so at a time of stress and strain'.⁸³⁰

This point of view has been recognized in the widespread supersession of the managing committees of unsatisfactorily working central banks in the Central Provinces and Berar, for example, where, under the

rehabilitation scheme, 14 out of 35 banks were taken out of their respective committees' control,⁸³¹ of which the direction of 6 had been restored by 1945-6;⁸³² in Orissa, where 13 out of 15 were still in the charge of the Registrar's agents in 1946;^{832a} in Assam,⁸³³ in Bihar;⁸³⁴ and in Travancore.⁸³⁵ The central banks and banking unions in Mysore were found to have worked so unsatisfactorily for several years that at one time they were ordered to be wound up,⁷⁷² though there were three in 1945-6.

The management cost varies from Province to Province in accordance with the functions assumed by the central banks, as well as with their efficiency of operation. Patiala's six small central banks, with a total working capital of Rs 126,233 had in 1945-6 an aggregate management cost of only Rs 300, which can only mean a considerable amount of voluntary service. The management cost of central banks in that year was less than 1 per cent only in the Punjab among the major Provinces, but also in Ajmer-Merwara and Delhi and in a number of States, including Bawalpur, Baroda, Kolhapur, Cochin and Travancore. In Bihar it reached the uneconomic figure of 8.3 per cent. This was doubtless because of the drastic reduction in working capital, which in 1945-6 was less than one-third of what it was in 1941-2, due to the writing off of much of the reserve of many reconstructed banks against the estimated loss, and the denial of permission to accept deposits except affiliated societies' surplus funds, until the financial position of the individual bank was fully stabilized.⁸³⁴ The Government of Bihar had undertaken to meet any central bank's loss due to cost of management for the first five years after its reconstruction.⁸³⁴

For the country as a whole the management cost of central banks averaged 1.3 per cent of their working capital, or Rs 10,019.4 per bank, as compared with 0.7 per cent for the management cost of Provincial banks, of Rs 142,894.9 per bank.

At first the directors of the central banks employed no

paid staff, doing all the work themselves with the Registrar's assistance,⁸³⁶ but today a trained staff is generally considered necessary. Complaints sometimes are heard that the accountants who are the best some central banks can afford do not measure up to a high standard of efficiency.

The pass to which the Movement came in certain Provinces towards the end of the great depression was very serious. In the Central Provinces and Berar, already mentioned, Rs 8,486,204, or 75·5 per cent of the total loan outstanding against societies was represented by loans due from members under award and societies under liquidation.⁸³⁷ The assets of Berar central banks were locked up in land taken from debtor members which was virtually unsaleable at the time. Unwillingness to face facts and procrastination in taking the steps which, as the Reserve Bank pointed out, were the only practicable solution—the writing off of bad debts and the spreading out of the arrears⁸³⁸—were responsible for considerable delay and greater loss, not only in that Province but elsewhere also.

The Madras Committee on Co-operation made the excellent recommendation that co-operative central banks take stock periodically to ascertain bad debts and declare them as such annually before net profits were declared.⁸³⁹ This patently desirable procedure would, if followed, have obviated tremendous losses. It is not enough, as the Madras Registrar pointed out in his 1941-2 report, to accumulate bad debt reserves without a periodic clearance of the dead wood represented by irrecoverable loans.⁸⁴⁰

The necessity is underlined by the report from the North-West Frontier Province that in 1945-6, when the recoveries of 3 out of the 4 central banks were only 34·1, 12·3 and 7·4 per cent, respectively, of demand, they all declared dividends. The Registrar says that 'the financial position of the banks remained sound', but one is glad that he felt the need of an expert in banking on his staff and had asked for one.⁸⁴¹

In Bengal, where a number of central banks during the depression had had to close their doors because they could not meet deposit withdrawals,⁷⁸⁴ the Movement had by 1945-6 reached a state of virtual stagnation. A scheme for the rehabilitation of the agricultural credit movement there was formulated in that year.³⁶⁸

It is good to have the Reserve Bank's reassurance that in general the position of the central as well as Provincial banks, weak in many Provinces before, appeared to have been fully stabilized between 1939 and 1946, 'with frozen debts recovered, bad debts reduced and with a considerable fluidity in their assets attained'.⁸⁴²

The possibilities in the direction of a sound credit and recovery policy are indicated in the report that, at the end of 1945-6, 4 of Madras's 30 central banks had no overdues, and that in the remaining central banks in that Province overdues amounted to only 6 per cent of demand.⁸⁴³ But the picture elsewhere was not quite so rosy, as we have seen.

The rehabilitation pattern varied from Province to Province, but several Provincial Governments had to come forward with large grants-in-aid and loans to keep the Movement afloat. Thus, in the Central Provinces, Government loans provided for part payment of the claims of the central banks' creditors, and for crop loans to members of the reconstructed and new societies. The Government also guaranteed interest to the depositors on the scaled-down amounts, and gave an annual subsidy of Rs 1 lakh for three years towards meeting the deficit in management cost.⁸⁴⁴

The Government's backing on the Co-operative Movement from the beginning had imposed an obligation not easy to evade when the breakdown of the Movement was threatened in certain Provinces. The central banks had owed not a little of the public confidence which they have not always deservedly enjoyed to the tacit assurance of backing from the Government.⁸⁴⁵ The Government's own good name as well as that of the Movement was

involved in the threatened collapse which would, besides, have had a disastrous effect on the economic situation generally.

The majority of the transactions of most central banks have been with agricultural credit societies. Not only are they the most numerous but, in many cases, the less usual types of societies, like producers' and artisans' societies, housing societies and societies for land improvement, have had special arrangements for obtaining loans from the Government, so that many of them only occasionally have sought financial help from the central banks.⁸¹⁶

Artisans' societies and others of special types may, however, be allowed accommodation up to a limited amount on their general assets; but for larger loans the pledge of goods or other property is required. Sometimes the personal security of members of the borrowing society's managing committee also has been demanded.⁸¹⁶ It has been pointed out that financing failures among non-agricultural, non-credit societies had caused some degree of financial embarrassment to about 10 per cent of the central banks in Bihar and Orissa some years ago.⁸¹⁷ Societies of many different types, however, frequently are served by the same central bank.

Interest rates to primary societies are markedly lower than in 1928-9. In Madras they were in 1945-6 $4\frac{1}{2}$ per cent and in Bombay 3 to $7\frac{1}{2}$, compared with about 8 per cent in 1928-9. In other cases the reduction has been less, e.g. in Bengal the decline was by only $\frac{5}{8}$ of 1 per cent, from 10 to $9\frac{3}{8}$ per cent. In 1945-6 the usual rates in Bihar were 6 to $12\frac{1}{2}$ per cent; in Assam $6\frac{1}{4}$ to 11; in the United Provinces 9. Cochin with interest rates of 4 to 5 per cent was exceptional. Great care is needed in fixing the rates at a point where they will allow a reasonable profit to the central institution without throttling the borrowing society, but the spread between the central banks' borrowing and lending rates seems in many cases greater

than with efficient management and a restrained desire for profits it need be.

A point made by the Travancore Committee seems well taken, that the interest rates to individuals should be the same for primary societies and central banks, to prevent unhealthy competition.⁷²⁰ A salutary check adopted a few years ago in Madras empowered the Registrar to fix the lending limits of the central banks,⁸⁴⁸ to keep their enthusiasm in that direction within bounds.

In some Provinces where reconstruction has been carried out, however, the pendulum seems to have swung from credit glut to something not very far from famine, though that is doubtless a temporary phase.⁸⁴⁹ In Bengal and Berar the difficulty of societies with frozen assets being ineligible for fresh credit was got around to some extent by new crop loan societies for seasonal finance.⁸⁴⁴

For profitable working, the central banks require most vigilant management, the prompt redemption of debentures when funds permit, for instance, and their reissue at a lower interest rate, as was done by the Cochin Central Bank in 1945-6, etc.⁸⁵⁰

The Central Banking Enquiry Committee found some feeling that in the matter of deposits the co-operative banks, with the help of Government assistance and prestige, were competing unfairly with the joint-stock banks.⁸⁵¹ They mentioned that in the matter of produce loans the co-operative banks could not in the end fail to affect the business of other institutions in that line, but they considered such loans of so great economic benefit to the cultivators that they recommended their encouragement, subject only to the societies' by-laws and to storage accommodation being available.⁸⁵²

An instance came to the writer's personal notice of a small city which seemed over-banked, with four joint-stock banks, a central co-operative bank, and a large people's co-operative bank competing for the limited business of the territory.

The clientele of the co-operative banks in general, how-

ever, being normally drawn largely from the small agriculturists and people of limited means in urban areas, the central banks, which lend only to members, would seem to offer no serious competition to the joint-stock banks. The advance of co-operative banks with capital and reserve of Rs 1 lakh and over between 1938 and 1946 was proportionately much less than that of either scheduled banks (excluding exchange banks) and non-scheduled banks, as shown by the Reserve Bank's *Statistical Tables Relating to Banks in India*. Though these larger co-operative banks as a group show an increase in capital and reserve funds, loans and advances and cash in hand and with banks, they are lagging behind the banks of other types.

Two Bihar Registrars have pointed out particularly what cordial relations exist between the co-operative and the joint-stock banks in that Province.⁸⁵³ There has been harmonious co-operation with the joint-stock banks in other Provinces as well, e.g. Sind and the Punjab. Even the outstandingly successful Provincial bank in Bombay, it may be mentioned in this connexion, had increased its deposits between the pre-war year and 1947-8 by a much smaller percentage than had scheduled banks in the same period, so the latter seem to have little to fear from co-operative competition. Rather may the joint-stock banks be encouraged to make a greater contribution to the country's agricultural credit needs, which the Co-operative Movement up to now is so far from having adequately met. The Gadgil Committee recommended that 'all reasonable facilities which do not hamper the growth of the co-operative credit system should be afforded to the commercial banks to enable them to play an important part in the rural credit organization'.¹⁸³

' In the early days the central banks loaned to each other as well as to primary societies and to individual shareholders, but where there are Provincial banks such inter-lending is normally uncalled for. Loans are commonly secured on promissory notes of the primary societies.

Before making loans, the central banks require, or should require, to be assured that a society is well managed, that there is a substratum of real credit beneath it, that any loan advanced will be devoted honestly to the purpose named and recovered punctually, and that mistakes will be brought to light and corrected before serious consequences can ensue.⁸⁵⁴

The MacLagan Committee recommended granting cash credits to especially good societies, subject to annual renewal, to be exceeded by a fixed percentage only when necessary and subject to the increase not being in excess of the normal credit-worthiness of the society as a whole, interest running only from the date of actual disbursement, a practice now quite common and of great importance in reducing the delays so frequently complained of in the central financing institutions.⁸⁵⁵

It is because primary society members are not properly educated in co-operative principles that the central banks cannot take the societies' recommendations on loans without sending investigators to decide on loan applications. Shri K. Subba Rao assured me that in Ceylon, where the members know that they will be responsible if their fellow-member defaults, they can be trusted not to sanction a loan to a neighbour in excess of safe limits. If the managing committees of primary societies cannot be trusted to pass on loan applications, the solution lies in their education, and the assumption of their legitimate functions by the central banks should be but as a temporary expedient and fully recognized as a necessary evil. The managing committees will never gain initiative and self-reliance so long as their functions are restricted virtually to those of a forwarding agency, and furthermore the co-operative character of the enterprise is thus lost.

A question may be raised in passing as to the ruling that D class societies are ineligible for any loans from the financing institution.³⁵³ How, then, can it be hoped that they will improve in classification within two years, at the end of which their registration is otherwise to be

cancelled? Leaving them to stew in their own juice does not seem the most helpful policy.

The Act of 1912 requires central banks as well as primary societies to carry at least one-fourth of each year's profits to the reserve. Well-managed central banks also have a fund for bad and doubtful debts and individual banks may have various other funds, such as for building, for dividend equalization, etc. Some central banks contribute from their profits to local charities, education and other 'common good' activities.

The ploughing of the share capital of the central banks into their business cannot be objected to as long as they are conducted on sound lines. The Nanavati Committee maintained that investments outside the Movement should not be allowed until the needs of the Movement had been met.⁸⁵⁶ The reserve, however, is part of the depositors' security and should not be risked unnecessarily. In some cases it is invested in other societies, which, in view of past developments, does not seem advisable as a general practice. The Thirteenth Conference of Registrars (1939) took the position that the reserve funds of central as well as Provincial banks should be invested outside the Movement in unencumbered trustee securities approved by the Registrar, other than mortgages of immovable property.⁸⁵⁸

Dividends are restricted by the various Acts; in Bombay the maximum is 10 per cent. The usual dividend on central bank shares is 5 per cent in Madras and Bombay, 3 to 4 per cent in the United Provinces, and 3 to 6 per cent in the Punjab. It is perhaps significant that in Bhopal, where the primary societies, agricultural and non-agricultural, showed an aggregate loss in 1940-41 and 1941-2, the central banks all paid a dividend,⁸⁵⁷ the usual dividend there being 6 per cent in the latter year, 10 per cent in 1945-6.

Apart from the annual audit, which is generally quite strictly observed in the case of central societies, and the check which their balance sheets enable the Reserve Bank

to make, the central banks are more or less independent of outside control and the response to the Reserve Bank's suggestions falls in some instances short of alacrity. The record of the Movement makes it very plain that closer supervision than has always been forthcoming is very necessary for central banks only less than for their primary societies. The Provincial bank should be given the same responsibility for its affiliated central banks that the latter should take for their primary societies.

The Nanavati Committee in Bombay agreed that a re-organized Provincial bank would be the most suitable agency for supervising and guiding the central banks,⁸¹² and that is actually planned by the Bombay Government. No other agency seems feasible, without making the co-operative structure top-heavy. The Provincial bank in Bihar has taken upon itself the supervision and inspection of its central banks.⁸³⁴ Where the Provincial bank cannot assume the responsibility, the strengthening of official control seems inevitable.

Many Registrars doubtless do what they can, but supplementing the Co-operative Department staff sufficiently to enable adequate supervision of central banks would be a good investment for the Provincial Governments, some of which should have learned that to withhold the wherewithal for the required ounce of prevention may cost them dear. That going through an experience is not, however, always to learn from it is illustrated by the Movement in the Central Provinces having been saved from immediate collapse before, in 1921, only by a large Government loan and the guarantee of a substantial cash credit.⁸³⁸ The Royal Commission on Agriculture (1928) ascribed it to lack of education of members in co-operative principles and to the giving of too much power to the central banks.

A measure of autonomy must be allowed to any co-operative institution, but not at the cost of sound banking principles.

Bombay has had since 1939-40 a Co-operative Banks

Association, but it functions chiefly as a consultative body, advising on request on matters of policy and procedure.⁸⁵⁹ Something more direct and forceful in the way of supervision is required.

The Madras Committee (1939-40) disapproved the proposed conversion of the central banks in that Province into branches of the Provincial bank. They had, the Committee said, been the strong point of the co-operative structure in Madras.⁸⁶⁰ It had certainly been partly due to them that the Province had survived the depression with much less damage than several other Provinces, and they preferred to leave well alone.⁷⁸³ All thirty central banks in that Province were in a satisfactory financial position at the end of 1946-7.⁸⁶¹ The failure of the Christian Co-operative Central Bank, which had served the depressed class societies, points, however, to their perhaps not always having had the close supervision which the branches of a Provincial bank might be expected to have. The Rayalaseema Co-operative Enquiry Committee (1945-6) recommended that in that area the central banks be abolished and the primary societies financed directly through branches of the Provincial bank.⁴⁸⁴

Provincial Banks

Provincial banks were found in all the Provinces except the North-West Frontier Province, Delhi and the Hyderabad Administered Areas, but only in Hyderabad and Mysore among Indian States, the total number for undivided India having been 13 in 1945-6, since when one has been formed in Orissa. The Government of the North-West Frontier Province a year or two before the partition which gave that Province to Pakistan, had approved the transformation of the Frontier Co-operative Bank at Peshawar into an apex bank, to function as such from 1947.⁸⁶²

The Provincial bank is the final link in the chain

between the small, scattered primary societies and the money market, as also with the Reserve Bank of India, the central banking authority of the country, which can be called on for short-term accommodation under certain restrictions. The Provincial bank's relations with the primary societies may be direct but are more usually through the central banks.

In Madras a central bank which lent to co-operative societies all over the Presidency was started without Government aid as early as 1907,⁸⁴² though it was not until 1917 that the Madras Central Union Bank was constituted the apex bank for the whole Province.⁸⁶³ In some cases, as in Bengal, Bihar and Orissa and the Central Provinces, the Provincial bank was formed by the central banks, which felt the need of such a coping-stone for the financial structure.⁸⁶⁴ In Bombay the comparatively slow increase in the number of societies in the early years made it hard for the central banks with a restricted area of operations to function successfully, so in 1911 the Bombay Central Co-operative Bank was founded to finance co-operative societies in all parts of the Presidency.⁸⁶⁵

All the Provincial banks, except in Bengal and the Punjab, have had individual as well as society members, 7,728 individuals in 1945-6, an increase of 70·3 per cent over the 1940-41 total, whereas society members had increased in the same period by only 60·6 per cent, to 20,057. Preferable as the purely federal Provincial bank may be from the standpoint of a neatly integrated co-operative structure, it cannot be gainsaid that financiers acquainted with commercial banking practice and believers in the co-operative ideal can be a great source of strength on the directorate. The MacLagan Committee regarded it as comparatively unimportant whether the co-operative element or individual shareholders had a dominating voice on the directorate of a Provincial bank.⁸⁶⁶ Individual shareholders were, however, found by the Nanavati Committee (1947) to be

over-represented on the board of the Bombay Provincial Bank, having 7 directors against 3 representatives each of central banks and agricultural societies and 2 of urban banks.⁸⁶⁷ It proposed a reconstitution of the board, to give less weight to individual shareholders' interests. It is apparently in that Province that co-operative finance on the higher levels has had its most striking development.

The Bombay Provincial Bank, like the Mysore Apex Bank, has branches. The branches and pay offices of the former number fifty-two.⁸⁶⁸ It also functions as a central bank in certain areas, some of them backward regions, and this system has worked well,⁸⁶⁷ the Nanavati Committee found, approving its continuance at least in certain areas.

The Provincial Bank in the Central Provinces and Berar has a number of offices in connexion with its commercial activities.⁸⁶⁹ In most other Provinces, the Provincial banks do not deal directly with societies except those of special types, like land-mortgage banks, housing societies, etc.⁷⁸⁴

The working capital of the Provincial banks aggregated Rs 2,489.96 lakhs in 1945-6, of which over Rs 21 crores was from deposits, some 3 crores being represented by owned capital, and loans being an almost negligible factor.

Share capital has been increased from time to time as the statutory limit of outside borrowing has been approached, which in Bombay is eight times the paid-up capital and reserve, a rule sometimes relaxed somewhat. The limit in Madras is twelve times the owned capital for the Provincial bank, ten times for central banks.⁸⁷⁰ Share capital represented 4.1 per cent of the working capital of the Provincial banks as a group in 1945-6 and the reserve fund 2.8 per cent; as compared with 7.6 and 4.2 per cent, respectively, in 1929-30.

The primary function of a Provincial co-operative bank, of course, is to balance the finances of the Move-

ment in its area. This it discharges by attracting deposits, providing a centre through which the surplus of one central bank can be passed on to meet the needs of another, serving as a clearing-house for the cheques of co-operative banks, and rediscounting commercial paper.

The Provincial banks in all Provinces except Assam and Bengal, and also those in Hyderabad and Mysore, had by 1945-6 added commercial banking to their functions. Loans to individuals, in Bombay chiefly to merchants and to traders, against agricultural produce,⁸⁷¹ accounted for just under half of all fresh loans by the Provincial banks in that year. The percentage was only 8 for Madras and nearly 30 for Bombay,⁸⁶⁹ but in Sind and the Punjab loans to individuals were 73.1 and 74.8 per cent, respectively, of all fresh loans, while the Provincial bank in the Central Provinces and Berar made over 90 per cent of its loans in that year to individuals, making it indeed, as the Reserve Bank pointed out, 'almost a commercial institution', though it has latterly increased its finance to crop-loan societies.⁸⁶⁹

The Provincial banks in some Provinces, notably in Bombay and Madras, have interested themselves in developing consumers' stores by loans and subventions; in Bombay the Provincial bank has taken an interest also in fostering marketing and industrial societies.⁸⁷² In Bihar and Orissa the Provincial bank has contributed towards the cost of training classes for managing committee members.⁸⁷³

The Reserve Bank's suggestion is well made that the Provincial banks, 'instead of venturing too far in the sphere of commercial banking should be in a position to explore avowedly co-operative channels of investment', thereby fulfilling their specific function as the apex institutions for the Movement in the Provinces concerned.⁸⁶⁹

The supervisory function of Provincial banks, discussed in connexion with the need for supervision of their central banks' working, is one which calls for development.

The Provincial bank's chief function being to serve as the balancing centre for all subordinate co-operative societies, large fluid resources are of course necessary. A certain percentage of deposit liabilities must be kept in cash. The Reserve Bank has set 10 per cent as the proper minimum for co-operative banks.⁸⁷⁴ In addition, readily realizable assets such as Government and other approved securities must be kept, up to a given percentage of current deposits or of fixed deposits falling due in the near future, the percentage varying somewhat from Province to Province. The Maclagan Committee tentatively recommended that Provincial banks be required to keep liquid assets to cover half the total of fixed deposits falling due for repayment within four months, or one-third if the Provincial bank maintained the liquid resources of all central banks.⁸⁷⁵ It further thought that deposits held at call should be covered by fluid resources amounting to at least 75 per cent of their total amount, except in Bombay, where the special conditions were held to make 40 per cent sufficient.

In practice, at a time like the present, when loan demand has greatly slackened and repayments have correspondingly increased, due partly to high prices of agricultural products, the Provincial banks generally have had far more than the Reserve Bank's standard of liabilities in liquid resources.⁸⁷⁶ In 1945-6 investments in Government and approved securities amounted to over Rs 14 crores, or more than 50 per cent of the banks' funds. The Bombay Provincial Bank had on 30 June 1948 a liquid cover of 78 per cent of its total deposit liabilities.

At the moment credit accommodation is the least of the Provincial banks' concerns, but the swing of the prosperity-depression cycle, inevitable in the present economic set-up, must in no long time bring the problem up once more. In the past, interlending among the Provincial banks has been common, but it is not altogether free from risk. The Reserve Bank is their natural recourse and a

great improvement as a source of credit over the Imperial Bank of India, which had been requiring Government paper as the only security for loans, forcing the Provincial banks in some cases to turn to exchange and joint-stock banks for call loans.

The Reserve Bank of India Act permits ninety-day loans and advances to Provincial co-operative banks against Government securities or readily marketable debentures of recognized land mortgage banks which are declared trustee securities, or on time promissory notes of co-operative institutions endorsed by the Provincial bank and drawn for the financing of seasonal agricultural operations or the marketing of crops. It can also rediscount such promissory notes and bills of exchange, provided they have a fixed maturity date not more than nine months ahead. It can, too, make loans and advances up to ninety days on the security of Provincial banks' promissory notes, supported by warehouse receipts for goods pledged as security for cash credits or overdrafts granted by the Provincial banks for financing seasonal agricultural operations or for the marketing of crops.⁸⁷⁷

That the Provincial banks generally have not availed themselves adequately of this recourse, only those of Bombay, Sind (now in Pakistan) and the United Provinces having taken loans from the Reserve Bank before 1948, the Madras Provincial Bank having been granted a large loan in 1948, can be assigned to a number of causes, of which their present relative independence of financing agencies is only one. Another is no doubt the inability in many cases, due to lack of licensed warehouses, to furnish negotiable warehouse receipts. The Reserve Bank also restricts its lending to A or B class institutions, feeling responsible, as 'the bankers' bank', for the development of sound banking practices. No one can question the genuine eagerness of the Reserve Bank's Agricultural Credit and Banking Development Department especially to serve the Co-operative Movement. Shri K. Subba Rao, an earlier Chief Officer of the

former Department, showed his concern for the advance of the Movement on sound lines when he wrote, 'Advances to all and sundry would only amount to putting a premium on inefficiency'.

If the Bank's anxiety related only to the safety of its advances it should not, of course, mind granting loans under good cover without any thought about the condition, character or nature of the borrower; but when the borrower happens to be a co-operative institution the Bank is anxious to see that the borrower can manage the funds properly and comes to no harm from the loan taken. It would not be advisable to encourage bad and indifferent societies incapable of sound administration to play with large funds and come to grief thereby.⁸⁷⁸

The Reserve Bank further requires the benefit of its concession rate of $1\frac{1}{2}$ per cent to be passed on in a lower lending rate to central banks and societies.⁸⁷⁹ Further, Provincial co-operative banks wanting financial accommodation from the Reserve Bank must maintain with it cash balances representing a certain ratio of demand and time liabilities, the requirement being just half the percentages required of scheduled banks and claimed to be necessary as a contribution to the Reserve Bank's resources as the apex bank of the country.⁸⁷⁴ This should work no hardship, Shri Subba Rao has pointed out, as these amounts would form part of the cash which a Provincial bank should in any case keep against its deposit liabilities.

The Reserve Bank also extends to Provincial co-operative banks joining its scheme of financial accommodation free remittance facilities for the transfer of funds between accounts maintained by different Provincial co-operative banks in different offices of the Reserve Bank, treating their affiliated central banks for such remittances as if they were branches of the Provincial banks.

It has been recommended that the Reserve Bank Act be amended to permit loans for twelve months and not for nine months only, and also to enable it to lend to

Provincial banks for the financing of co-operative industrial as well as agricultural operations,⁵¹⁹ and such a needed broadening of the Reserve Bank's basis of operations is probably only a question of time.

Up to a few years ago, Government assistance to the Provincial banks had not been necessary to any considerable extent in most Provinces, except in Burma and in the Central Provinces and Berar. The Provincial Government, however, has had to subsidize the Provincial bank in Bengal heavily for years in connexion with its loss in the failure of the jute societies, and also in Hyderabad and Mysore and elsewhere, where the rehabilitation of the Movement has been undertaken, Government support has been required on a large scale. The tendency to lean on the Government seems to have grown very much in recent years. The Madras Provincial Bank required a Government loan in 1946-7 for the first time, but paid back the Rs 200 lakhs entirely.⁵⁸⁰

Now, when there are more deposits than can be profitably handled, there is no friction between the Provincial and central banks in connexion with competition for deposits, but such competition has arisen in past years, as in Bombay, Assam and Bihar and Orissa.

The reconstructed Provincial Bank of Assam, formally opened in October 1948, would, it was hoped, help to revivify the Movement throughout that Province.

Corresponding to the normal credit statement of the primary societies is the advance fixing of the annual credit limit of each central bank, which the Reserve Bank recommends to eliminate delays in disposing of loan applications.⁵⁸¹ Something akin to this has long been the practice in Bombay.⁵⁸² Such limits as are proposed can be computed on the basis of balance sheets, profit and loss statements, audit notes and recent annual reports. The central banks can then draw promptly and as frequently as they require up to the sanctioned limit.⁵⁸¹

The management cost of the Provincial banks, as

already mentioned, averages 0·7 per cent of their working capital. The conduct of any Provincial co-operative bank is serious business, calling for the best men available as directors of such institutions. Amateur banking, no doubt unavoidable in the majority of primary societies still, has no place in the apex co-operative institution of a Province or a State. It should not be possible at any stage of the Movement to find such a situation as the Banking Enquiry Committee (1929-30) found in Assam—that there was no one with banking experience on either the directorate or the staff of the Provincial bank.⁸⁸³

At least as serious a need of managing committee members of the apex co-operative institution of a Province or a State is that of a high sense of responsibility. It has happened fairly recently that dividends have been declared by such a Bank when its overdues have been larger than its probably realizable assets. This, in the absence of an adequate bad and doubtful debts fund, amounted, of course, to paying dividends out of capital, a reckless proceeding in any case but particularly conscienceless in an institution presumably devoted to co-operative interests.

As in the case of the central banks, the interest rates of the Provincial banks have declined greatly since 1929-30, in the Punjab, for example, from $6\frac{1}{2}$ to $3\frac{1}{2}$ per cent, though in most Provinces they are still too high to permit the central banks and the primary societies to reduce their rates to the desirable level. A differential rate has been charged in Bombay between primary societies, on the basis of their comparative credit-worthiness, and between central banks and primary societies in the former's favour, so that they can lend to primary societies at the same rate the Provincial bank does. Obviously the central banks could not compete on fair terms with the Provincial bank, with its larger resources, without this concession. Their interest has been further safeguarded by the requirement that the permission of the central bank is necessary for an urban society in its

territory to borrow from the Provincial bank or a bank outside the Movement.

Provincial banks generally are subject to the requirement that 25 per cent of their net profits must go to the reserve fund. The profits of all thirteen Provincial banks in 1945-6 was Rs 14.47 lakhs. Profits, though varying, have been consistently shown for the group as a whole, at least in recent years, except in 1941-2 when the loss of over Rs 9 lakhs by the Provincial bank in the Central Provinces reduced the group average.

Restrictions on dividends in the various Provinces of course apply no less to the Provincial than to the central banks. The usual dividend on shares ranges from 3 and $3\frac{3}{4}$ per cent in Mysore and the Punjab, respectively, to 9 per cent in Bombay, 5 or 6 per cent being commoner figures. The sharing of a portion of the profits with affiliated societies in terms of the amount of interest paid to the Provincial bank during the period, a practice early introduced in Bombay,⁸⁸⁴ has much to commend it.

The Saraiya Committee suggested Government subsidies to the Provincial banks, suitably reconstituted where necessary, in lieu of starting the Agricultural Credit Corporation proposed by the Gadgil Committee. The same amounts which would be necessary for the latter would enable them to discharge the functions contemplated for the Corporation, it was claimed, with the added advantages that the Provincial banks were already functioning so that delay in organization would be saved, and that the greater number of credit-worthy agriculturists would in time be brought into the co-operative fold.⁸⁸⁵

This proposal has already been adopted in Bombay, where the Government in the summer of 1948 ordered the reorganization of the Provincial co-operative bank on a federal basis and for its assumption, with Government subsidies if needed, of the responsibility for organizing credit for credit-worthy borrowers throughout the Province. In line with the Co-operative Planning Com-

mittee's recommendation, the Bombay Government further announced its intention to subscribe to the Provincial bank's share capital up to Rs 50 lakhs, matching the amount subscribed by individuals and co-operative societies. The Government's dividend in excess of 3 per cent is to go to a special stabilization reserve of the Provincial bank.³⁶⁶ The subscribing by the Provincial bank to the share capital of its central banks on similar terms is also contemplated.

Land Mortgage Banks

The necessity for separating the business of long-term credit from the short-term accommodation which represents the proper field of the primary credit societies was generally recognized by 1930. It is still the avowed policy to keep them separate at the primary level, though this has not always proved wholly feasible.

The inadequacy of the resources of primary societies and the unfairness of tying up a large amount in a loan to an individual when others were responsible for his debts were mentioned in 1930 by the Bombay Banking Enquiry Committee, which also claimed that mortgage credit sapped the sense of personal responsibility on which unlimited liability rested,³⁶⁵ the last consideration having recently, as we have seen, been flouted in practice in Bombay legislation even for ordinary credit societies.

That Banking Enquiry Committee's objection to 'primary societies' undertaking the provision of long-term credit applies with almost equal force to central banks. The deposits which are their chief capital dependence are usually for a shorter term than the cultivator needs for loans for clearing the slate of old debts or undertaking the improvement of his holding.

Long-term loans having got the Movement into difficulties in several Provinces and States, and the need for long-term finance for debt-redemption continuing acute, essays were made with land mortgage banking, which had proved so successful in Germany and elsewhere,³⁶⁶

as early as 1920 in the Punjab.⁸⁸⁷ The attempt there was not very successful, due largely, it is claimed, to the depression, with falling land values, and to the handicap of the Land Alienation Act in that Province.⁸⁸⁸

Successful land mortgage banking in India really dates back only to 1929, when the Central Land Mortgage Bank was established in Madras to centralize the issue of debentures and to co-ordinate the working of primary banks in the Province.⁸⁸⁸ Madras in 1945-6 still had 59·7 per cent of the 141,901 land-mortgage bank members, 41·5 per cent of the 289 central and primary land mortgage banks in undivided India; and 77·3 per cent of their total working capital of Rs 837·3 lakhs. Land mortgage banks and membership were numerically strong also in Bombay, Mysore and the Central Provinces and Berar. There were, however, only five central land mortgage banks, in Madras, Bombay, Mysore, Orissa and Cochin, the last two having no primary land mortgage institution; the central banks there loaned direct to individuals, that in Orissa through its branches.⁸⁸⁹ There were land mortgage banks in only 9 out of the 15 Provinces in 1945-6 and in only 5 States, Baroda, Cochin, Mewar, Mysore and Sangli, but Hyderabad some time ago passed an Act establishing a land mortgage bank.

The Madras Central Land Mortgage Bank has a good record of useful activity, thanks partly to active assistance from the Government, which has fully guaranteed its debentures both as to principal and interest. The strategic location of the primary banks in the irrigated tracts has doubtless also played its part, while apparently leaving many agriculturists in the frequently dry areas out of the picture. Careful management, good land records and the absence, in the areas of most banks, of restrictions on the alienation of land have also been favouring factors. That bank has followed the practice of careful evaluation of lands taken as security, has adjusted the period of loans to that of debentures and has

fixed instalments for repayment according to the borrower's repaying capacity. A sinking fund for debentures, is provided by that bank as well as by the Bombay Central Land Mortgage Bank, the debentures in Bombay, however, amounting to only a fraction of the Madras total which, up to 30 June 1946, stood at Rs 3·25 crores.⁸⁸⁸

Debentures have been the chief source of land mortgage capital, not only of the central land mortgage banks in Madras and Bombay, Mysore and Cochin, but also of primary land mortgage banks in Baroda and in Assam on a smaller scale, there being no Provincial land mortgage bank in either. Government loans were in 1945-6 the chief source of land mortgage capital in Orissa, but debentures have since been floated there⁸⁹⁰ as also in the Central Provinces and Berar.⁸⁹² As long ago as the twenties debentures with interest guaranteed by the Government were floated in the Punjab.⁶³² The Provincial Co-operative Bank in Bengal financed the land mortgage banks there.⁸⁹¹

State assistance has sometimes, as in Madras⁸⁹² and Baroda, taken the valuable form of administrative help in land valuation as well as in connexion with debentures, not only in some cases by guaranteeing interest and even principal, but also by recognizing them as trustee securities or by introducing the security in the market, where necessary, by the investment of public funds in the issue.⁸⁹³ Grants towards management expenses, especially of new societies, have been given in Madras, Bombay, Bengal,⁵⁰⁵ Baroda,⁸⁹⁴ etc.

The Reserve Bank's time limit for the advance of credit means that it can do little to help land mortgage banks except by buying their debentures or giving short-term accommodation against them as security, provided they are fully guaranteed by the Provincial Government and have a ready market.⁸⁹⁵

The land mortgage banks have been financed chiefly by the Provincial co-operative banks in Bengal, the

Punjab, the United Provinces, etc.⁸⁹⁹ as formerly in the Central Provinces and Berar.⁸³²

The Bombay Provincial land mortgage bank, with fifteen affiliated banks, worked well in 1946-7, giving direct loans to adjusted debtors, members or nominal members, under the Bombay Agricultural Debtors' Relief Act, who lived outside the area of operation of the primary land mortgage banks. The fall in fresh business generally experienced throughout the country had, however, made the position of several of the primary banks precarious.⁸⁹⁶ The decreased need of agriculturists for long-term loans for debt relief, due to high prices of their products, was one factor; others having been the financing of land improvement schemes through other Departmental agencies at concessional rates,⁸⁹⁷ and the recent extension to the whole Province of the provisions of the Bombay Agricultural Debtors' Relief Act.⁸⁹⁸

Where the instalments fixed by Debt Conciliation Boards carry no interest, there is little incentive for debtors to turn to a land mortgage bank to pay off their debts in full, unless the creditors will agree to a further reduction of their scaled-down claims for the sake of a lump-sum payment. This avenue of business in Bengal and in the Central Provinces and Berar, especially, has been found unpromising.⁸⁹⁹ In Bombay the effort made to link the working of the Act with the land mortgage banks may be expected to bear more fruit as awards under the former grow in number, but at present several primary land mortgage banks are reported to be 'starving for lack of business and unable to pay any dividend to shareholders'.⁸⁹⁷

Land mortgage banks are organized on a limited liability basis. The period of loans varies from 5 to 20 years in Bombay; in Madras loans are for a fixed period of 20 years.

The Royal Commission on Agriculture accepted the principle of basing borrowing power of members on a multiple of their holdings in the share capital,⁹⁰⁰ the

multiple varying from Province to Province.⁹⁰¹ In some Provinces a maximum in rupees is fixed for the loan. The maximum has sometimes been a given multiple of the land revenue.⁹⁰² Fifty per cent of the value of the land is accepted in several Provinces as the maximum that can be lent by a land mortgage institution; in Assam, during the depression, the value of land securities depreciated below the amounts loaned on them.⁹⁰³ In Madras, mortgages are said sometimes to have been taken for nearly $3\frac{1}{2}$ times the amount of the loan.⁹⁰⁴ Sureties have also been required in some Provinces, in addition to the mortgage security.

The lending rates of the central land mortgage banks are lowest in Bombay— $4\frac{1}{2}$ to 5 per cent in 1945-6. They were 5 per cent in Madras and Cocin, 6 in Mysore and $6\frac{1}{2}$ in Orissa. The rates of the primary land mortgage banks were 6 per cent for Bombay, Madras and Baroda, but 8 to $9\frac{3}{8}$ in Bengal. They were $10\frac{1}{2}$ per cent in 1944-5 in Assam, where land mortgage banking was almost stagnant.⁹⁰² In Madras, the interest rates to the ultimate borrowers were reduced in 1946-7 to $5\frac{1}{4}$ per cent, still higher than what the Gadgil Committee recommended in proposing that the Government give the subsidies necessary to make possible a 4 per cent rate to the agriculturist for long-term finance.¹⁸³

In several Provinces no dividend is paid on shares; in Madras the usual dividend is 4 per cent for the central and 5 for the primary societies; in Bombay it is $1\frac{1}{2}$ and $2\frac{1}{4}$ to $3\frac{1}{2}$ per cent, respectively. The highest dividend is paid in the United Provinces— $6\frac{1}{4}$ per cent.

In contrast with the finding of the Madras Committee on Co-operation in 1939-40 that only 9·8 per cent of the loans of the Central Land Mortgage Bank in that Province were under Rs 1,000,⁹⁰⁵ the Bombay Provincial Land Mortgage Bank in 1946-7 distributed 104 loans (45 per cent of the total number) of less than Rs 1,000; 85 between Rs 1,001 and Rs 2,000; 39 between Rs 2,001 and Rs. 5,000; and only 3 of over 5,000.⁹⁰⁶ The Madras

Committee recognized small loans as more expensive for the bank, but rightly insisted that the small landholders were as much in need of help from mortgage banks as others.⁹⁰⁵

A frequent complaint against land mortgage banks is the delay in connexion with loan applications, which the Madras Committee said had become a by-word.⁹⁰⁷ The system, they said, 'is sound but lacks speed',⁹⁰⁸ a difficulty which can hardly be overcome entirely, in view of the meticulous care required in assessing the value of the immovable security offered, examining the title to the land and determining the instalments in terms of repaying capacity.

The experience of the Punjab in the early days of land mortgage banking has been a pointer to the dangers of overdues. These are not today a serious problem, though they were serious in the thirties.⁹⁰⁹ On the contrary considerable advance payments have been reported from Madras, Bombay, the Central Provinces and Berar,⁹¹⁰ Orissa⁹¹⁰ and elsewhere.

The decline in business, however, has meant that land-mortgage banking in the United Provinces and elsewhere has been largely marking time in recent years.⁹¹² This, though the Gadgil Committee recognized in 1945 that land mortgage banking was still far indeed from having met the country's long-term credit needs.⁹¹¹ The borrowings of land mortgage banks and societies represented in 1945-6 only 4.6 per cent of the working capital of the Co-operative Movement as a whole, compared with 16.9 per cent of the total for Madras.

Not only have the land mortgage banks in several Provinces summary powers for the recovery of defaulted instalments,⁹¹² but the rise in prices of agricultural products has had a markedly beneficial effect.

Obviously, a primary land mortgage bank which has not enough business to make ends meet cannot be continued indefinitely. The proposal has been made in several Provinces to amalgamate such uneconomic units

with the local central bank. This has been done in one case in Bombay and in several cases in the Central Provinces and Berar.⁸³² The margin of subsistence for a primary land mortgage bank was determined by the Provincial bank in the latter Province to be a minimum of 50 borrowers and a minimum outstanding loan of Rs 50,000.⁹¹³ Those falling below it were slated for amalgamation with central banks.

In Coorg at the end of 1946-7, there was every hope of the establishing of a long-term branch of the Provincial bank for 20- to 25-year loans.⁹¹⁴

The Gadgil Committee approved the supplying of long- and short-term finance by the same agency, but this is a solution which experience shows to be fraught with risk, unless medium- and long-term loans can be more rigorously separated from short-term loans than has been usual in the past. The Nanavati Committee proposed the supplying of long-term finance by the central financing bodies as agents of the Provincial land mortgage bank, which might be feasible.⁹¹⁵

Short of ultimate abandonment of this important sector of the co-operative attack on the small man's problems, alternative uses for the land mortgage banks' funds must be found. Besides debt redemption, generally stressed so far, loans may well be given, as the Gadgil Committee recommended,¹⁸³ for land improvement, e.g. the sinking of wells, bunding operations, etc. This development on a large scale presupposes, however, a proper co-ordination of state policy. If it is felt that the co-operative land mortgage structure is worth keeping, direct loans for land improvement at rates lower than a land mortgage bank can offer without loss should not be made by the Government in areas served by land mortgage institutions and should be abandoned elsewhere with the spread of land mortgage banking to other areas.

Loans for land purchase, subject naturally to the limits of individual holdings being set in various Prov-

inces, offer another outlet for land mortgage institutions' funds.

The financing of rural housing societies seems to offer also a tremendous field for the expansion of the business of land mortgage banks. Informed and responsible propaganda for such projects as well as for land-improvement schemes would seem to be in order for the land mortgage institutions or the Co-operative Department through its staff or through honorary workers, but full co-operation for advice and consultation should be available to the land-mortgage banks from the other Government Departments—Agriculture, Industries and Public Works—which are in a better position to know what improvements to encourage.

Better co-ordination between the land mortgage banks and other co-operative institutions, as well as between them and all other agencies for the improvement of the cultivators's lot, has been urged by the Reserve Bank. Lack of such co-ordination with village credit societies means, it has pointed out, difficulty for the land mortgage banks in maintaining contact with their borrowers.⁹¹⁶ That land mortgage banks should loan to members of a primary society only after consulting the latter, as the Travancore Co-operative Committee recommended,⁹¹⁷ is obviously important.

The desirability, from the standpoint of prudent management, of land mortgage societies' linking up their business with that of co-operative insurance societies was suggested in the consideration of the latter.

The Central Banking Enquiry Committee recommended the further establishment of land mortgage banks on a co-operative basis wherever there was a reasonable prospect of their working successfully under the local conditions,⁹¹⁸ and the development of well-organized joint-stock mortgage banks for the benefit of the numerous classes of landowners who could not be adequately served by the co-operative credit organizations.⁹¹⁹ In some of the Indian States joint-stock land credit institu-

tions have been organized with State help and patronage. Travancore has such a bank.⁹²⁰

All-India Co-operative Associations

There are two All-India co-operative associations, the All-India Co-operative Banks' Association, organized in 1926, and the All-India Co-operative Institutes' Association, already mentioned,* formed in 1929, both of which hold periodic conferences which have served the valuable purpose of bringing together leading non-official as well as Co-operative Department officials from different parts of the country, for the exchange of views and the sharing of experience. A joint meeting of their standing committees was held at Bombay in July 1944. The late Dewan Bahadur H. L. Kaji was the President of both. The valuable quarterly journal published jointly by the two All-India associations, *The Indian Co-operative Review*, completed its fourteenth volume at the end of 1948.

The Relation of the Reserve Bank of India to the Co-operative Movement

The setting up of the Reserve Bank of India under the Act of 1934 filled a long-felt need in the financial structure. Its actual and potential contribution in the monetary field has been discussed in connexion with the Provincial banks which form the link between it and the other central and the primary co-operative societies.† The picture of the Co-operative Movement, however, would not be complete without consideration of the very valuable service which it is receiving from the Agricultural Credit Department which the Reserve Bank set up in April 1935, simultaneously with its Issue and Banking Department.⁹²¹ The Reserve Bank of India Act called

* See p. 229 and addendum to Chapter VII.

† See pp. 256 ff.

for the creation of such a special Department with two functions:

(a) to maintain an expert staff to study all questions of agricultural credit and be available for consultation by the Central Government, Local Governments [replaced in 1937 by Provincial Governments], Provincial co-operative banks, and other banking organizations ;

(b) To co-ordinate the operations of the Bank in connection with agricultural credit and its relations with Provincial co-operative banks, and any other banks or organisations engaged in the business of agricultural credit.

Its shepherding of the not always docile flock of co-operative banks involves, as mentioned, a careful study of the balance sheets of Provincial and central banks, and the prompt calling of departures from sound banking practice to the attention of the proper authorities; if the caution goes unheeded, the reminder, it is understood, can be both firm and pointed. The balance sheets of a few primary societies may be called for by way of test sampling, but the examination of the balance sheets of all primary credit societies, for which their own central and Provincial banks hardly find sufficient time, is obviously beyond the Agricultural Credit Department's numerical strength, valuable as it would be.

No less important a service has been the functioning of the Agricultural Credit Department as a clearing-house of information on co-operative practice and achievements throughout the country.⁹²² It is increasingly consulted by Governments, Registrars and co-operative banks⁹²³ as well as research workers, and its spirit of helpfulness and genuine co-operation cannot be too highly praised. It was called in consultation by co-operative enquiry committees, e.g. that in Berar, at whose request the then Chief Officer of the Department met the committee at Nagpur in 1939 and prepared a note embodying his excellent suggestions.⁹²⁴ More recently Mr Sher Jang Khan, late Chief Officer of the Department, served as Secretary of the Co-operative Planning

Committee and also of the Agricultural Finance Subcommittee. Like his successors, Shri K. Subba Rao was very keenly interested in the fostering of the Co-operative Movement, touring different sections to visit representative co-operative institutions, to observe their working and to get members' views at first hand. Registrars being only human, there may be a temptation to put the best foot forward in planning the Chief Officer's tour of their Provinces, but a veteran co-operative official doubtless knows how to get the real picture in the areas he visits.

The Agricultural Credit Department has made numerous studies, including the financing of agriculture by central banks and Governments in foreign countries, cattle and crop insurance, consolidation of holdings, licensed warehousing, and problems of audit, supervision and inspection of co-operative societies,^{92b} state aid to the Co-operative Movement in individual Provinces and States, etc.

Besides its several interesting bulletins embodying the results of its studies, its manuals of sound banking practices, etc., the Agricultural Credit Department brings out annually the indispensable *Statistical Statements Relating to the Co-operative Movement in India*, formerly published by the Department of Commercial Intelligence and Statistics. Without derogation from their great value, a few suggestions may be offered for consideration in connexion with future issues of these, which may, if adopted, make them more readily and intelligently usable, apart from the quite minor one that an alphabetical arrangement by States might now helpfully be substituted for the one inherited from the Reserve Bank's predecessor in the task of compilation.

(1) That loans for which extensions have been granted and those for which extensions have been renewed be differentiated from loans outstanding and not yet due, which would indicate

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the extent to which nominally short-term loans are, in effect, medium or long-term ones.

(2) If loans outstanding can be broken down into principal and interest due, another important clue to the soundness of the Movement will be available.

(3) That a more detailed breakdown of primary societies by predominant functions would be very desirable; the average turnover and profits would, for example, be interesting figures for purchase and sale societies and for consumers' stores.

(4) That the number of inactive societies in each State be indicated and not only the number of societies under liquidation.

(5) That the cost of working of the Movement as a whole in each State be given, broken down to show the average cost per society, per member and per inhabitant; the share in that total cost borne by the State Government and the percentage that it represents of the revenue expenditure, the Government's contribution being broken down in turn, if possible, to show the cost of the Co-operative Department itself and of Government subsidies and loans in respect of societies of various types.

(6) That an annual interpretative analysis be given in the shape of tables of significant percentages, such as those in the Bengal Registrar's reports, or of State averages, like the illuminating one which appears in *Thirty Years of Co-operation in India*, the Reserve Bank's own compilation.

All this would of course add to the difficulties of preparing the *Statistical Statements*—difficulties which only one who has worked with the non-uniform and unco-ordinated annual reports of the Registrars throughout the country can fully appreciate. But the advantages would be great in enabling those responsible for the Movement in the several States to compare its status in their own territory both with their own record in previous years and with that of other political divisions, and so to determine readily in what particulars their showing is relatively satisfactory and where their position needs strengthening. If the facts are to be compiled at all—and this is most necessary—why not present them also in a form in which their significance can be readily

grasped? If no comparative interpretation of the figures is made, the Provincial Co-operative Departments are working more or less in the dark, and a great waste of time and energy is involved in each having to make its own analysis of its comparative status, if indeed this is often done.

Busy and understaffed though many of the Co-operative Departments are, there need be no compunction in including the data necessary for these analyses in the figures required of them by the Reserve Bank. It may be suggested that the compiling of such data by the Co-operative Departments would hardly involve as much work as the full statistical tables of specific institutions which are presented in appendices to some of the Registrars' reports, which, however potentially useful to the statistical analyst, would seem incommensurate with their general value. An ounce of the pertinent is worth a pound of the merely informative of local interest, just as a house, however small, is worth more than a tremendous jumbled heap of bricks.

There has often been neglect in preparing and sending these figures as grist for the Reserve Bank's mill, and there has even been objection raised to the requirement of too much paper work in the Registrars' offices.⁹²⁶ Obviously red tape is to be avoided as much as possible and no unnecessary demands should be made of busy men, but the value of such interpretative analyses should be so obvious that there would be more willing and more intelligent co-operation than always in the past. A navigator at his busiest has time to take soundings in shallow water, and to consult his chart.

Such co-operation would also make possible the bringing out of more nearly current figures. The statistics for 1945-6, for example, appeared only in the summer of 1948 and for one Province the latest figures were still those for 1944-5! Late figures are better than none, but they mean that tendencies requiring correction are not brought to light in time for prompt action.

Thirty Years of Co-operation in India: 1914-15—1944-45, which also appeared in the summer of 1948, already mentioned, is a popular pictorial and graphic presentation of the history of Co-operation in India, a valuable compilation, though somewhat more specific labelling of certain tables and charts would increase their usability.

The suggestion may also be offered for the future that a comprehensive index would add to the accessibility of the wealth of information and the valuable suggestions brought together in the Agricultural Credit Department's admirable periodic *Reviews of the Co-operative Movement in India*, the first two of which covered, respectively, the condition of the Movement in 1939-40 and its progress from 1939 to 1946.

CHAPTER IV

EVALUATION OF THE CO-OPERATIVE MOVEMENT IN INDIA

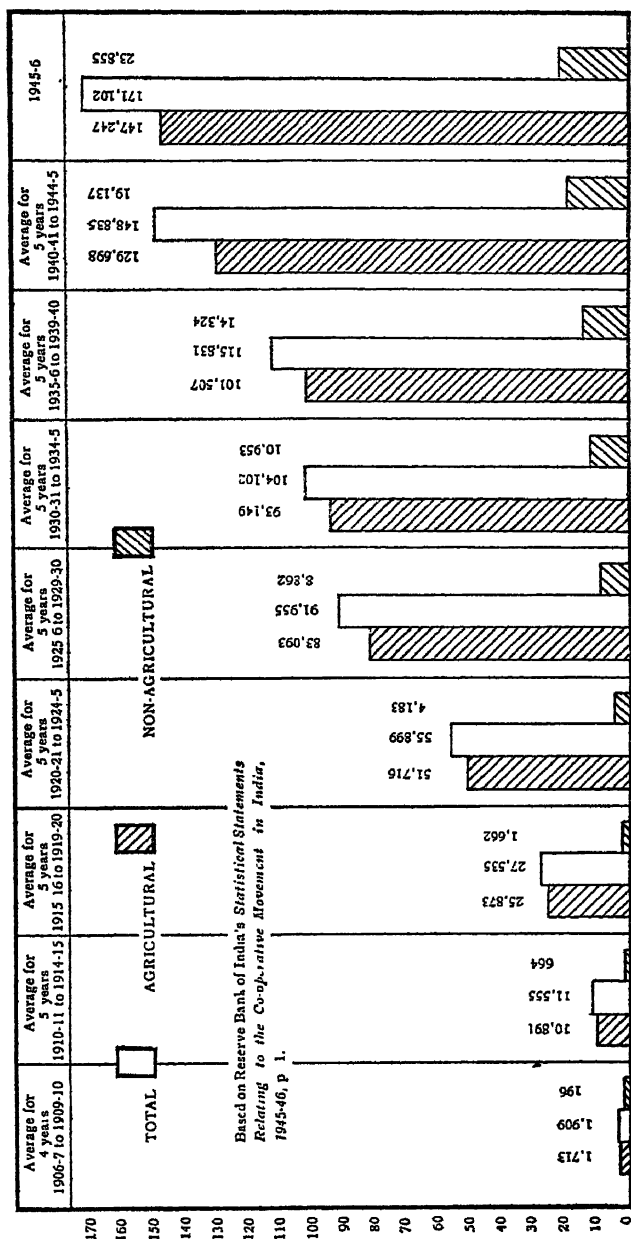
FORTY-FOUR years have passed since the Indian Co-operative Movement was formally launched. What has it achieved? And how far has it justified the high hopes of its early sponsors? Are the inhibiting factors now so much to the fore in some Provinces inherent in the Movement itself, or can they be overcome by due diligence and effort? These are still pertinent questions today. It is not putting it too strongly to say that Co-operation has been on trial for its life in some sections, as in the Central Provinces and Berar where, in the darkest days of the depression, a motion was actually made in the Provincial Legislature by a well-known politician of Berar, a former Minister whose portfolio had included Co-operation, for the winding up of the Movement there.⁹²⁷ There have been times when the Movement has been virtually dead on its feet or at least in a perilous state in Bihar, in Orissa, in Assam, in Bengal and the United Provinces, in Sind and in Hyderabad, Mysore and Travancore. It is still today, as remarked in 1932, in a very bad way indeed in Bhopal, and it is going through the motions without accomplishing very much in several other States and Provinces.

A critical evaluation is necessary of the present status of the Movement, its external handicaps and internal weaknesses and what, in spite of these, it has been able to accomplish.

At the close of 1945-6, the last year for which comparable statements are available, there were 171,102 primary societies in the fourteen Provinces of British India, the Hyderabad Administered Area and the twenty-five Indian States which are included in the official *Statistical Statements*. Of these 86·1 per cent were classed

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CHART I
Growth in Number of Primary Societies, 1906-7 to 1945-6



as agricultural and only 13·9 per cent as urban. The two groups had 5,500,762 and 3,435,452 members, respectively, representing 61·6 and 38·4 per cent of the total number, significantly reversed for working capital, the two groups representing 38·5 and 61·5 per cent, respectively, of their total working capital of Rs 8,565·2 lakhs. Chart I shows the growth in number of primary societies from 1906-7 to 1945-6.

The Co-operative Planning Committee set the goal of bringing 50 per cent of the villages and 30 per cent of the rural population within the ambit of the primary societies, reorganized to serve as centres for their members' general economic development, within ten years. Whatever one may think of the possibility of its attainment without sacrificing soundness in the foundations to speed, the goal certainly represents a great desideratum.

There were in 1945-6 more societies than villages only in the small Province of Coorg and the State of Cochin. Assam had only one society to thirteen villages, Orissa, Sind, Bihar and Mysore all less than one to six villages. Bombay had a society for every three villages. Madras, Bengal and the Punjab, one society to every 2·3, 1·9 and 1·3 villages, respectively. The nine major Provinces had 3·3 villages to a society in 1945-6; 5·8 in 1929-30.

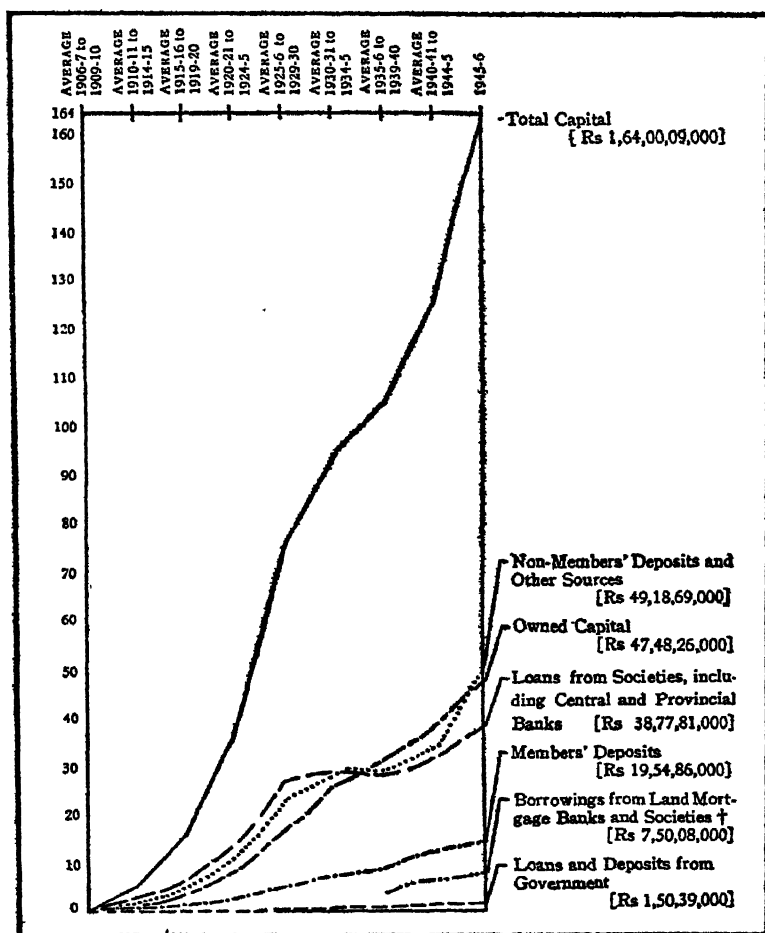
Table II shows by Provinces and States the percentage of the population affected by the Movement in 1945-6, reckoning each member of a primary society as a member of a family of five and using the Reserve Bank's estimate of population on the basis of a constant rate of increase since the last census of 1941. The figure for the country as a whole is 12·7 per cent, but it will be noted that the variation is considerable, from 89·4 and 62·4 per cent in Coorg and the Hyderabad Administered Areas, respectively, both small areas, to 3·4 in Bihar and 1·3 in Patiala. Among the major Provinces, Bombay, the Punjab and Madras have a decided lead in this respect, with 24·5, 18·9 and 18·0 per cent of their respective

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CHART II

Increase in Working Capital from different sources
for the Movement since 1906-7

(Based on Reserve Bank of India's *Statistical Statements Relating to the Co-operative Movement in India for 1945-6*, p. 3)



† First average for 3 years, from 1937-8 to 1939-40.

populations affected, followed by Bengal with 13·5 per cent.

Table II shows the number of primary societies by Provinces and States and Chart II shows the increase in working capital from different sources for the Movement since 1906-7. In 1945-6 it was just over Rs 164 crores, compared with just under Rs 90 crores in 1929-30. It represented then, however, Rs 214·3 per primary society member, against only Rs 179·0 in 1945-6, reflecting the extent to which expansion has outrun the growth in resources.

It must be remembered in connexion with the figure per member for the working capital of the Movement as a whole that considerable duplication is involved in including in the total the working capital of both the primary societies and their financing agencies. The amount of working capital of the primary societies only works out at Rs 95·8 per member in 1945-6, as compared with Rs 119·7 in 1929-30. This fall of 20 per cent in the working capital per primary society member may be compared with a drop of only 14·4 per cent per member of primary societies in the working capital of the Movement as a whole.

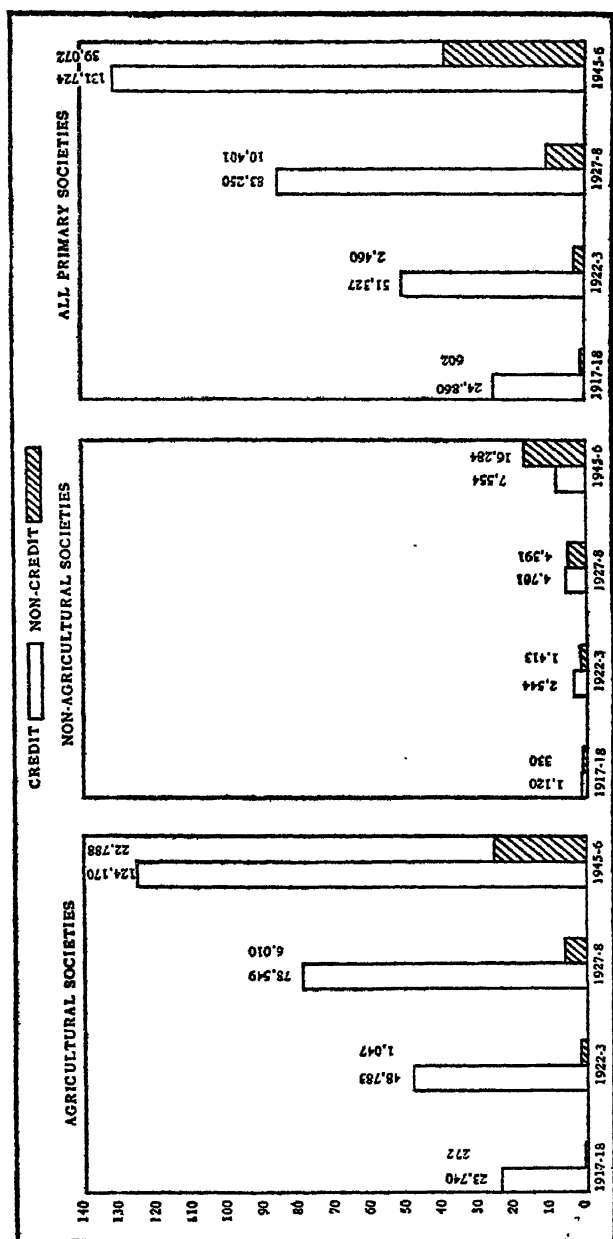
Of the grand total in 1929-30, share capital and reserve represented 23·7 per cent of the working capital; owned capital represented 29·1 per cent in 1945-6. One of the healthiest signs is the steady increase in the total reserve, which in 1929-30 amounted to 10·4 per cent and in 1945-6 to 14·1 per cent of the working capital.

Chart III brings out the ratio of credit to non-credit societies for the country as a whole in 1945-6.

The Movement is still predominantly, as it has been from the beginning, a credit movement, still, as at first, chiefly for the benefit of the rural population, although the urban societies, both in number and in financial strength, occupy a position of far greater relative importance than their percentage of the total population would warrant.

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CHART III
Ratio of Credit to Non-Credit Primary Societies (in thousands)*



* Last figures only do not include Burma.

On the face of it the Movement has shown gratifyingly steady progress, interrupted by the depression years. There has been a general advance in number of societies, in total membership and in working capital, regardless of set-backs experienced in some areas.

How little mere numerical strength may mean may be seen by a comparison between Bombay, where the Movement has been strong, on the credit side particularly, and Bengal, where it has been almost marking time in recent years. Undivided Bengal, which in 1945-6 had nearly four times as many villages as Bombay, nearly six times as many societies, and half again as many members, had only Rs 23.0 crores of working capital (Rs 3.7 per head of population) against Bombay's Rs 35.4 crores (Rs 16.2 per head).

The largest number of agricultural societies in 1945-6 was found in Bengal, 43,320, followed by the Punjab with 26,993 and the United Provinces with 21,401. Madras had in recent years lost its lead in membership of such societies to Bengal, their respective figures being 919,784 and 1,116,978. Over 100,000 members of agricultural societies were reported in the Punjab, the United Provinces, Bombay, Bihar and Orissa, Hyderabad, Travancore and Mysore.

The Punjab had, in 1945-6, 6,121 non-agricultural societies, the largest number in any Province, followed by Madras and Bengal with 3,571 and 3,307 and by Bombay with 1,747. Madras had a large lead in number of members of such societies, 944,553, followed by Bombay with 618,884 and Bengal with 556,309. Kashmir, Hyderabad and Mysore among Indian States had 972, 873 and 643 such societies, respectively.

The Co-operative Movement stands or falls by the soundness of the primary societies which are not only the *raison d'être* of the central and Provincial banks, but the foundation on which the entire superstructure rests. It is realized that a quantitative measure of net

achievement of the Movement must fall far short of presenting the complete picture. The effect on the morale of co-operators does not lend itself to calculation in percentages, nor does the effort being put into educating members in co-operative principles, but the various ratios, percentages, and per member averages have a bearing on the soundness of the position in different parts of the country. Among the points brought out by analysis of the statistics for primary societies is that the Movement is on a quite sound basis in some of the smaller Provinces and States of which not much is heard in co-operative circles but a study of whose methods might repay officials and co-operators in some of the larger Provinces.

That the overdues situation is much better today than during the depths of the depression reflects the improved economic condition generally or at least that of large producers with surpluses to sell, ⁹²⁸ for which, paradoxically, war conditions were in large part responsible. The fact, however, that even in this relatively prosperous time unauthorized overdues in 1945-6 still formed 32.9 per cent of individual loans of primary agricultural societies, as compared with 10.9 per cent for non-agricultural, points to major economic and especially agrarian problems still unsolved. There are grounds for encouragement but not for complacency. Unauthorized overdues represented 90.9 per cent of demand in Assam in 1944-5 and 81.5 and 56.0 per cent, respectively, in Bengal and Orissa the following year, which shows how unsatisfactory the position is in some sections. Kotah, Bhopal and Travancore among Indian States had the worst showing in this respect, their respective overdues percentages having been 75.1, 67.9 and 59.5. In none of the major Provinces was the figure less than 14.3, which was that of the United Provinces. The small Provinces of Ajmer-Merwara and Coorg, with only 2.6 and 6.2 per cent of overdues were quite exceptional.

An outstanding feature of recent development has been the great advance of non-agricultural and non-credit societies. While the percentage of primary societies represented by non-agricultural societies increased since 1929-30 by only 2.9 per cent, to 13.9 in 1945-6, their working capital of Rs 52.6 crores in 1945-6 was almost $3\frac{1}{2}$ times the corresponding figure for 1929-30, whereas the working capital of agricultural societies had actually declined a little, from Rs 34.9 to Rs 33.0 crores—a trend which demands careful scrutiny and steps to ensure that the agricultural group, which so far outnumbers the urban, is not neglected by the Movement which was designed primarily for their benefit.

The percentage represented by credit societies in the total number of primary societies declined in the same period from 91.2 to 77.1, especially in the towns, credit societies representing, in 1945-6, 84.5 per cent of agricultural and only 31.7 per cent of non-agricultural societies.

Other marked developments in recent years are the increase in the number of primary societies with limited liability, the slow but steady growth in multi-purpose societies, and the important role which the co-operative societies have played in the distribution of rationed commodities.

Handicaps of the Movement

So much for the present extent and general status of the Movement in India. What are the extrinsic factors which have inhibited or retarded its optimum development? The complexity of the problem is undoubtedly among the chief of these. Poverty and malnutrition, the wide-spread indebtedness which in many Provinces tardy steps have been taken to relieve through debt relief legislation, the depressingly high percentage of

illiteracy and the lack of business experience, uneconomic holdings and antiquated methods, inadequate transportation and storage facilities, the lack until recently of uniform standards of weights, measures and products, great price fluctuations, dearth of regulated markets, exploitation by money-lenders and middlemen—these are among the many facets of a problem that call for simultaneous attention, supplemented by far-seeing economic and social legislation. Valiant attempts are being made in these directions, but much remains to be done in them all. Some of these difficulties are shared by India and Pakistan with other countries, from whose experience there is much to learn, but it seems undeniable that in the sum total the difficulties which the Co-operative Movement has had to face on the Indian subcontinent are greater than those with which Co-operation has had to contend in the several Western countries where it has had a spectacular success.

Even relieving the agriculturist of his burden of debt and making the credit necessary for current needs available at reasonable rates will not greatly benefit him, unless his income can be raised or his expenditure reduced. The former involves consolidation of his holding, improvement of his land, by irrigation or otherwise, the amending of his methods of cultivation, encouraging the pursuit of one or more supplementary occupations, or enabling more profitable disposal of his products. The reduction of expenditure involves sound systems of landholding and land revenue assessment, the availability of required supplies as well as credit at reasonable rates, the reduction of unnecessary expenditure on social ceremonies by a reform in public opinion, the encouragement of thrift in the form of savings accounts or insurance, and especially education, which will not only facilitate most of the foregoing objects, but will also help to safeguard the peasant against exploitation.

The difficulties of rehabilitating the artisan are only less complex, for he shares all these needs of the cultivator, except those that relate specifically to the soil, and has in acute form the problem of decent housing at reasonable rates. The industrial and agricultural labourers also want relief from indebtedness, controlled current credit at moderate interest, cheap supplies, reduced social expenditures, and education, but their most crying need is for a fair remuneration for their labour. Unfortunately, a general increase in the rewards of labour is largely outside the scope of the Co-operative Movement and must await the better organization of workers and the economic advance of the two Dominions.

These many facets of the problem complicate the task of the Co-operative Movement in India and in Pakistan and emphasize the necessity for careful study of the situation and for concerted action. Sporadic attacks are being made in different Provinces and States on all the aspects of the gigantic problem, but the relative ineffectiveness of scattering of effort is coming to be recognized more and more. The funds available to the Movement, however, are regrettably limited and are likely to remain so for some time; and the irrigation water that could make one field produce a rich harvest naturally makes a comparatively poor showing spread over eight or ten.

Certain it is that the best hope of doing lasting good to the beneficiaries of the Movement lies in visualizing their problem as a whole and directing the co-operative attack simultaneously upon as many fronts as possible. Co-operation, as the late Sir Horace Plunkett pointed out, will succeed only as an integral part of a comprehensive agricultural policy.⁹²⁹

The Gadgil Committee prefaced their summary of recommendations with the warning that financial reconstruction could not be successful unless all the problems of agricultural economy were tackled as a whole; the attempt to raise a sound system of finance should be only

a part of a general problem of reconstruction, to place the agriculturist producers in a state of normal solvency.⁹³⁰

Co-operation is not the panacea which it was once somewhat unrealistically hoped to prove. A veteran non-official co-operator like Dewan Bahadur H. L. Kaji, than whom there has been no more stalwart advocate of the de-officialization of the Co-operative Movement, in his lecture at Prague in September 1948, conceded it to be obvious 'that the work so far done is not in any way adequate to the immensity of the problem. Nothing short of wide-spread State machinery will reconstruct the village and the villager. It is only when this objective has been achieved, to at least an appreciable extent, that voluntary efforts by the people themselves can make further headway with adequate grants and subventions from local boards and Government.'⁹³¹

It was perhaps inevitable up to a point that a trial-and-error method should have been relied on as the Co-operative Movement felt its way towards stability and effectiveness. But the errors have been expensive to too many of those whom the Movement was designed to benefit, as well as to the credit of the Movement as a whole. The Government's delay in providing for debt redemption and land mortgage banking played not a small part in the collapse of many societies which got beyond their depth in the attempt to meet these urgent needs. If the idea of planning which has been so much to the fore in recent years could have imbued earlier those responsible for the well-being of the country, many of the failures and much of the consequent suffering could have been avoided.

Another external factor which greatly handicaps the advance of the Co-operative Movement has been mentioned—the wide-spread illiteracy and lack of business experience. Reference has been made to the difficulty of finding literate villagers to serve as secretaries for co-operative societies, many villages being without a single

literate man.⁹³² But even if a suitable secretary can be found, the illiteracy of the rank and file of the members makes it difficult to educate them in co-operative principles and limits their effective participation in the conduct of the society, without which it cannot be a truly co-operative undertaking or avoid the danger of exploitation by a few influential members. Shri V. L. Mehta, the then Managing Director of the Bombay Provincial Bank, stated years ago to the writer: 'A great democratic movement like that of co-operation can have no firm foundation unless it is based on the ordered will of the people, and I doubt very much whether the desire to organize for common economic endeavour will prove effective in the absence of an educated proletariat'.

The dependence of the major branch of the Movement upon climatic conditions is a difficulty which the societies cannot overcome unless they can build up a reserve sufficient to carry them through several bad seasons if necessary. The large-scale irrigation projects in various parts of the country will in time improve conditions in large areas but, great boon that these will be to their direct beneficiaries, they touch, after all, but a fringe of the problem. The Irrigation Inquiry Committee appointed by the Government of Bombay in 1938, for example, found only 4·16 per cent of the cropped land in that Province irrigated.⁹³³ The position has not changed very greatly since.

How serious the climatic factor is was demonstrated in the thirties in Berar, where crop failures in four successive years made unprofitable even the carefully planned and economically run Karanja-Ramjanpur scheme under which thirteen members of local co-operative societies with very heavily encumbered lands were working collectively under the Deputy Director of Agriculture of the Western Circle.⁹³⁴ It has not yet been demonstrated that Co-operation offers the solution for the problems of cultivators of such marginal land. Perhaps

a far-seeing policy would encourage the gradual abandonment of the effort to cultivate much of this land in precarious tracts, and the clearing for cultivation of some of the country's vast cultivable but untilled area.

No less serious a problem and a more general one is the dependence of the Co-operative Movement on the economic situation, which the history of the depression years has amply proved. The old saying that for ten who can stand adversity there is only one who can stand prosperity has had its exemplification in the history of the Co-operative Movement in India. It is the expansiveness of mood that a boom period evokes, the careless assurance that good times and high prices will continue, which encourages borrowing—and lending—for unproductive purposes and that sometimes has made the central financing institutions more eager for an outlet for their surplus funds than for the conservative conduct of the societies under their influence and control.

The blame for a situation to which negligence, mismanagement and inadequate support have all contributed on occasion cannot be laid wholly at the door of the economic situation, but the latter does inevitably play a most important part in the success or failure of Co-operation. The period of over-lending in the twenties can be traced very largely to disregard of the working of the law of cycles, which is obvious in every department of nature no less than in the life of man. The Hindus, at least, should have learned better from the *Bhagavad-Gita* than that prosperity had come to stay: 'Light and darkness are the world's eternal ways'.

The Bombay Registrar warned in his report for 1946-7 that the war-time spurt in prices and in scope for distributive trade was transitory. 'The time has now come for the conservation of members' purchasing power through a savings drive and the consolidation of the finance and functions of co-operative societies so as to enable them to weather the storm of depression which may set in before long.'

But if economic ups and downs are inevitable, much can be done by wise statesmanship to mitigate their rigours. The Saraiya Committee, in urging the adoption by the state of a policy of actively supporting agricultural prices within a range fair to both producer and consumer, remark truly that, 'while the co-operative method of organisation is itself a method of reducing the risk to be shouldered by each, by pooling the responsibilities of all, there is a limit beyond which even a co-operative organisation cannot go in reducing the risks and hazards of enterprise . . . risks particularly high in agriculture.'⁹³⁵

Communalism has handicapped the Movement to some extent in the Punjab, where, for example, 'communal bickering of the directors' was blamed for bringing a commission shop to the verge of ruin.⁹³⁶ There has been complaint in some cases because one community was over-represented on the board of management, etc. Certain Co-operative Departments cannot be cleared of responsibility for fanning the fanatical community consciousness which was responsible for the partition of India and ultimately for the assassination of India's saintly leader, Gandhiji. In certain Provinces and States, e.g. Delhi,⁹³⁷ Coorg⁹³⁸ and Cochin, the community of members is noted in the reports and in the latter two there is a further breakdown by castes! And this in spite of the Coorg Registrar's remarking that 'the very fact that all manner of people . . . without distinction of caste and creed, have joined the various co-operative societies in teeming numbers and have evinced keen interest in their working, is a clear proof of the great potentiality of the Movement'.⁹³⁸

As Shri B. G. Kher, then Bombay's Chief Minister, declared at the Bombay Provincial Co-operative Conference on 11 April 1938, 'there is no place in the Co-operative Movement for distinctions of caste, creed or politics'.

Weakened popular morale has been claimed as one

of the handicaps of the Co-operative Movement. Members' disloyalty has frequently been assigned as a cause of failure of consumers' stores. Where the co-operative spirit is lacking and self-interest is believed to prompt buying or selling outside the society to which one's loyalty is due, this represents surely a failure of education in co-operative principles and possibilities. When Diwan Bahadur K. D. Mudaliar, investigating the Movement in Orissa in 1938, remarked that in most societies in North Orissa, where the Movement had virtually collapsed, the co-operative spirit was lacking, 'the appreciation by members of their common needs and their acting together to achieve that objective through self-help and mutual help and instruction',⁸⁸⁹ he was really bringing an indictment against those responsible for co-operative education in that Province. He said of the rural credit societies, 'The system is admittedly good, but for satisfactory results in its working it requires good men'. People had, he said, been entrusted with management before they were fit for it.⁹⁴⁰

If members' lack of loyalty to their societies or incompetence were the only complaints, they might be dismissed as requiring only co-operative education and experience to overcome. There have, however, been not a few cases of wilful default by members, of negligence and irresponsibility on the part of managing committees, and even of embezzlement, involving Co-operative Department employees in some cases as well as employees of societies.⁹⁴¹ Some of the Co-operative Enquiry Committees have publicly washed their hands of certain groups; the Madras Committee on Co-operation condemned the weavers as 'a hopeless lot, untrustworthy, indifferent and ignorant'.⁹⁴² The Berar Co-operative Enquiry Committee mention having to deal with 'sophisticated and, we are sorry to say, dishonest members'.⁸²² Mr F. W. Wace in the Punjab referred also in 1939 to the Department's 'constant fight against intrigue and dishonesty'.⁹⁴³ These reports and such a recommen-

dation as that of the Saraiya Committee that the cows of members of milk producers' societies be milked in the presence of their secretary or of each other,⁹⁴⁴ are, if justifiable, most difficult to reconcile with the traditional honesty of the Indian villager.

The embezzlement cases are the more serious in that they involve in many cases those better educated and hence more blameworthy than ignorant villagers or industrial workers. Public opinion, Mr Wace charged, was not sufficiently strong against embezzlement and misappropriation.⁹⁴⁵ The Bihar Registrar remarked amazingly in his condensed 1943 report that the criminal cases 'were generally settled amicably'!⁹⁴⁶

It cannot be doubted that much of the present spirit of lawlessness, which finds expression, for example, in ticketless travel on a very large scale, traces back to the wide-spread feeling that if the better could be got of the alien Government it was a matter for congratulation. This was the opening wedge for laxity in other dealings and the attitude that it denoted has unfortunately, if understandably, survived the acquirement of freedom. The Reserve Bank's Agricultural Credit Department found the feeling on the part of some Provincial Governments that the Debt Relief Acts had weakened the people's moral sense and that in many cases agriculturists with sufficient repaying capacity were holding out in the hope of further concessions.⁹⁴⁷ It referred in its Review for 1939-40 to 'a general impairment of a sense of contractual obligations'.⁹⁴⁸

In view of these charges and of what Mr Wace called the 'undoubted decay of the former sense of obligation to repay debts',⁹⁴⁹ it was reassuring to hear the President of the Bombay Provincial Co-operative Institute and a former Registrar, Sir Janardan Madan, say at the Provincial Co-operative Conference on 11 April 1948: 'Nothing has pleased me more than the admirable way in which agriculturists have risen to the occasion and falsified the charge often levelled against them as a class,

that they are not punctilious in honouring their obligations.'

Certain administrative difficulties must be counted among the handicaps of the Co-operative Movement. The place of the Departmental staff in each Province and State is of a significance perhaps hardly comprehensible by co-operators in countries where co-operation is predominantly a spontaneous effort. Official nurture is not the ideal method of sustaining a Co-operative Movement, but in the Indian context the choice was, as it has been largely ever since, between a Government-initiated and Government-fostered effort and leaving the impoverished and often apathetic people without the alleviation of their wretchedness which most agree Co-operation can bring about. What has, however, been imperfectly realized in general is the vast responsibility which the underwriting of the co-operative effort involved and implied. There was no overpowering obligation to start the Movement in the absence of full conviction as to its possibilities but, having started it, there was, and is, an inescapable moral responsibility for its development on sound lines. That that responsibility has been discharged with varying degrees of inadequacy must be apparent to any serious student of the Movement. In certain Provinces and States a degree of ineptitude, a casualness and a piece-meal attack have characterized an approach to the problem that would have spelled ruin to any private business on a comparable scale—that has, alas, spelled ruin for too many whom the Movement was designed to serve.

This is not to question the good intentions of the administrative officials, many of whom have proved their faith in Co-operation by devoted service, or even of the Governments concerned. The charge of a general step-motherly attitude towards the Movement under the British Raj can easily be disproved. Not only was fairly generous support forthcoming in several Provinces and States, but also, when the defects of co-operative practice

and administration could no longer be ignored, committees or qualified individuals were called in consultation. This action, though sometimes belated, yet bespoke sincere concern for the welfare of the Co-operative Movement and its intended beneficiaries.

It is too soon to assess fully the changes for the better following the substitution for foreign rule of autonomous Governments—that in the Indian Republic committed to the ideal of a Co-operative Commonwealth—but there is every hope of a general strengthening of Governmental support to the Co-operative Movement. The Indian Republic's Industrial Housing Scheme generously encourages co-operative housing projects.

Up to the transfer of the co-operative portfolio to the Provinces in 1919, the Central Government had lent Rs 97·27 lakhs to the Movement, besides the expenses of maintenance of staff, grants-in-aid and subsidies, etc.⁹⁵⁰ Its continued interest in Co-operation has been evidenced by the appointment within the last few years of the Agricultural Finance Sub-committee and the Co-operative Planning Committee, whose reports have made distinct contributions to the Movement. In addition, various benefits and privileges have been conferred, such as the guaranteeing of interest on debentures, the giving of co-operative societies a prior claim to enforce recoveries, etc., and, up to 1940, free remittance facilities,⁹⁵¹ the latter having been restored by the Bombay Government in 1948. The Central Government in 1935, following an investigation on its behalf by Mr (now Sir) Malcolm Darling and on his recommendation, instituted special grants to the Provinces for co-operative education and training, which have been a boon to the Movement.

Generous as the support for the Movement has been since 1919 in several Provinces, it has been fully adequate in none, wholly inadequate in others. The Travancore Co-operative Committee compared in 1934 the cost to the Government per society and per member in that State—Rs 35·3 and As 4·4½, respectively—with Bombay's

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Rs 96·3 and As 11; Madras's Rs 73·5 and Re 1-1-7 and Cochin's Rs 78·1 and As 12-5, respectively.⁹⁵²

When one considers the large amounts by which a number of Provincial Governments were out of pocket for their quasi-compulsory contributions in connexion with the rehabilitation of the Movement when it was threatened with collapse, one must reflect that had a moiety of these sums been spent on co-operative education and adequate supervision no rehabilitation might have been necessary.

From 1919-20 to 1945-6, while the total working capital increased from Rs 1,968·86 lakhs to Rs 14,433·42 lakhs, or by 633·1 per cent, loans and deposits from the Government increased only from Rs 24·54 lakhs to Rs 74·02 lakhs, or by only 201·9 per cent. Government loans during the period never represented more than 1·63 per cent of the working capital. They represented 1·25 per cent of working capital in 1919-20 and only 0·51 per cent in 1945-6 for the country as a whole.⁹⁵³

The Government expenditure on Co-operation in the eleven major Provinces totalled Rs 6,721 lakhs in 1938-9; Rs 21,814 lakhs in 1945-6. In no Province in the latter year did the expenditure on Co-operation amount to even 2 per cent of the total revenue expenditure, the percentage being highest in the Punjab, 1·95, followed by Orissa and Bihar with 0·79 and 0·73 per cent, respectively. Even in Madras, where the largest amount was spent on the Co-operative Movement, and where the Departmental strength on 30 June 1947 was over 1,500 of the rank of Junior Inspector and above, besides a clerical staff of 160,⁷⁵⁴ the percentage of revenue expenditure was only 0·64.⁹⁵⁴

Relatively small as state monetary aid had been, however, the Reserve Bank pointed out the considerable measure in which, by its moral support and by the provision of supervision, assistance, counsel and control, the Government had contributed to the position of the Movement.⁹⁵⁵

The question of adequate support will be considered among the conditions of success for the Co-operative Movement. It may, however, be mentioned here that there has been wide-spread complaint that the Co-operative Departments are understaffed, and in several reports that fact has been offered as an excuse for not promoting one or another desirable type of co-operative activity and even for neglect of statutory functions. On the lower levels there has been a scale of remuneration which has made it difficult in several Provinces to recruit the needed staff, and impossible in most cases to command the proper type of service for the vitally important work of supervision. Conditions everywhere are not, happily, as dismal as in the North-West Frontier Province, where, as recently as 1945-6, sub-inspectors on a salary less than an ordinary clerk's and with no travelling allowance were expected to be constantly on the move on their fifty-mile beat.⁹⁵⁶

In certain Provinces, e.g. the Central Provinces and Berar in the forties,⁹⁵⁷ the rapid turnover in Registrars cannot be in the interest of an integrated policy. In Indore, between 23 August and 16 November 1947, the Co-operative Department itself was shunted from the portfolio of the Minister for Education to that of the Minister for Food and then to that of the Minister for Agriculture.⁹⁵⁸

In spite of the MacLagan Committee having approved the same administrative superior for the Co-operative Department and numerous others, such as the Agricultural, Industries and Fisheries Departments, to ensure co-operation among them,⁹⁵⁹ it is felt that the combining of the post of Registrar with the headship of any other Government Departments should be recognized as undesirable and a temporary expedient, even where it is held to be necessary for financial reasons before the Movement assumes sufficiently large proportions in a given Province or State. The administration of a Co-operative Department in any Province where the Movement is fair-

ly launched is a man-sized task and its proper discharge calls for all the time and energy of the Registrar. In Bombay the Registrar is also the Director of Agricultural Marketing and Rural Finance and he has been entrusted with the administration of the Money-Lenders Act. In the Punjab the purchase of the Provincial reserve of food grains in 1942 was laid on the Co-operative Department, a task which called for utilizing the entire co-operative organization for this work outside its proper field.⁴²⁷ Elsewhere, e.g. in the Central Provinces and Berar,⁴⁵⁷ in the North-West Frontier Province,⁴⁵⁸ in Assam⁴⁶⁰ and in Coorg,⁴⁶¹ other duties have been laid on the Registrar which it would seem must detract from his efficiency in relation to the Co-operative Movement. The Assam Registrar complained that it had done so.⁴⁶⁰

If, as has been suggested, this assigning of additional duties is sometimes welcome to the Registrar for augmenting his income, the solution would seem to be adequate recognition of the dignity and responsibility of his office on the part of the Government, and perhaps also a readiness to sacrifice in behalf of the cause on the part of the incumbent. The Saraiya Committee declared that the Registrar should enjoy a higher status and a longer term of office; and that he should rank with the heads, for example, of the Police and Public Works Departments.⁴⁶²

Though Shri B. P. Patel the Bombay Registrar, assured me that the Registrar *must* tour 120 days in order to contact people in all parts of the Province, his presence being more effective than circulars, it is still a question in my mind whether excessive touring is not in very many cases expected of and done by the Registrar. As the Directing Head of the Movement, should he not have time to survey trends and to devise policies and check their working? The General's place is not in the front-line trench.

The public apathy towards Co-operation which has been a handicap is understandable in the light of the record in a number of sections. It will, however, not survive the

repeated convincing demonstration of the possibilities of the Movement. That nothing succeeds like success is a truism, and dissemination of news of outstanding successes is the Co-operative Movement's best propaganda. As the Registrar for the North-West Frontier Province remarks in his report for 1945-6, 'One really active society is of greater importance to the Department and the public than a hundred spoon-fed societies that do not perform their functions properly'.

While there has been good co-operation between the Co-operative and other Departments in certain Provinces, in others the optimum degree of co-operation has not been forthcoming. The Madras Committee on Co-operation, for instance, was 'struck with the water-tight approach of the Government Departments towards rural problems'.⁹⁶³ In the Punjab the fullest co-operation has been reported between the Co-operative and Forest Departments, but considerable ill-feeling between the Revenue staff and the Co-operative staff dealing with consolidation of holdings.⁹⁶⁴

The present uncoordinated activities of the various Co-operative Departments among themselves, as well as sometimes with other Departments, reminds one of Kipling's dream of the future reward of good artists, each 'in his separate star', drawing—

. . . the Thing as he sees It
for the God of Things as They are.

Whereas the co-operative picture needs to be co-operatively painted and not 'for the God of things as they are', but of things as they might be and ought to be.

Weakness of the Movement

Co-operation has been well called 'self-help writ large'—concerted effort by the members of a group to improve their own and each other's condition. The recognition

of the need by the prospective beneficiaries of the effort should come first, then the realization that Co-operation offers a way to meet it, and finally the taking of the necessary steps. The lack of spontaneity in the Indian Co-operative Movement is admittedly one of its greatest inherent weaknesses, however unavoidable in the circumstances. The Movement in India was stigmatized by the late Sir Horace Plunkett as, 'with the exception of a few genuinely co-operative cases, due to the zeal of a Registrar or of some philanthropic individual . . . not so much a Movement as a Governmental policy'. He emphasized that the greatest of all obstacles to self-reliance was 'the habit of looking to the Government to do for us things which we can and ought to do better for ourselves'.⁹⁶⁵

There are perhaps no people so patient in discomfort and misery as the Indian masses. Their patience has too long been exploited. Their wretched condition forbade delay until the prerequisites of co-operation on orthodox lines were forthcoming. Considering the need, the launching of the Co-operative Movement in India was not premature. Nor has its guidance by the Co-operative Departments in the several Provinces been unnecessary, up to a point. It was a choice between Government control and speedy collapse of the effort.

Enthusiastic non-official co-operators deplored the stand taken in 1928 by the Royal Commission on Agriculture in favour of strengthening official control for the present, although it recognized genuine co-operative control as an ultimate objective.⁹⁶⁶ Even yet the time has not come for the de-officialization to which all friends of genuine Co-operation must look forward, though there was justification for what Shri V. L. Mehta, the then Minister for Co-operation in Bombay, said in 1944: 'State aid even on a liberal scale does not necessarily connote State control of the type in vogue in the Co-operative Movement in India today'.⁹⁶⁷

The powers of the Registrar in all Provinces are large.

As one prominent non-official co-operator put it to the writer: 'The Registrar is the Brahma, Vishnu, and Siva of a co-operative society'. None can be organized without his sanction and, while appeals against his decisions are possible they have been rather rare. In many cases the unlettered members do not know that they have the right of appeal, and a strong tendency is reported to take his suggestions as orders, which obviously is not in the interest of developing self-reliance and a sense of responsibility. In at least two Provinces at one time or another, power has been vested in the Registrar to direct an amendment of the by-laws of a registered society, which, it has been truly claimed, violates all co-operative principles.⁹⁶⁸

A difficulty, however, has been that, though the Co-operative Departments have assumed the task of guidance, they have not assumed—perhaps could not assume—the responsibility that is morally inseparable from power. Where, for example, undertakings of dubious feasibility have been gone into on the recommendation or even insistence of Department officials, as in some of the ill-starred non-credit undertakings in North Orissa,⁹⁶⁹ and these have failed, the hapless members have borne the brunt. It is difficult to absolve the Government of responsibility in such cases, whatever the legal position may be.

An unfortunate effect of the long conditioning of the co-operative societies for dependency is the alacrity with which co-operators turn to the Government as the Giver of Gifts. It is a striking experience to attend a co-operative conference and to hear proposed—and passed—one Resolution after another requesting—almost demanding—help from the Government in this, that and the other direction, the provision of warehousing and transportation facilities, subventions here and grants-in-aid there. Joint borrowing, in good faith, of the necessary wherewithal for work and even for subsistence is legitimate, but begging it, or even expecting it as a matter of course,

takes the undertaking out of the co-operative category altogether.

Granting all that can be said in the abstract, however, against paternalism and Government leading-strings, it is not believed that the present state of the Movement justifies the Registrars in relinquishing the ultimate control to any non-official bodies. It is highly desirable for the Provincial institutes to assume the functions of propaganda, of education, of supervision, and even of audit, subject to a Governmental super-audit, but the Registrar, as the one responsible under the law, must know what is being done, and how.

The failure of the Co-operative Movement to serve the neediest strata is a general weakness, in spite of the efforts made on behalf of the Harijans or depressed classes in many Provinces and States, as also of the aboriginal tribes. The very suitability of Co-operation for serving these people has been questioned,⁹⁷⁰ though in the United States, it may be mentioned, the Farm Security Administration sets up co-operatives within its framework for sub-marginal groups throughout that country. It may be necessary to admit that in India and in Pakistan the possibilities of the Co-operative Movement in connexion with the greatest credit risks are limited. Mr F. W. Wace refers to 'the considerable percentage of agriculturists who under any prudent system of credit should not be permitted to borrow'.²⁵⁹ The Bombay Co-operative Banks Association in December 1947 passed a resolution agreeing with the Gadgil Committee that 'special State machinery is necessary for the provision of relief and rehabilitation in backward areas, in tracts where distress conditions almost form part of the cycle of production, . . . and also in areas of solvent economy, where particular communities suffer from a depressed condition'.⁹⁷¹

There have, however, been enough cases of modest or even striking success, as among sweepers' societies in the Central Provinces and Berar⁹⁷² and among the Bhils in

certain Bombay Districts,⁹⁷³ which have alleviated if not vastly improved the condition of members of groups unfavoured by co-operative opinion as well as by fortune, to justify the continuance and extension of efforts on their behalf.

Separate societies for the hill tribes may be justified where they live in isolated parts, but for the depressed classes, at least where the case is not that of special interest groups on an occupational basis, the aim should be their gradual assimilation in societies of mixed membership. The Banking Enquiry Committee in Bombay held that 'the success of the Movement depends in a large measure on the judicious selection of members and the steps taken to educate them in co-operative principles'.⁹⁷⁴ This principle of selectivity can be carried too far. The aim of the Co-operative Département in any Province should not be primarily to establish a good record for the Movement there, though that is of course desirable, but to help those who need help to the great possible extent consistent with safety. It is better to keep the bars as low as sound practice permits than to make a spectacular showing with a hand-picked membership in selected areas.

Especially in a movement requiring support from the tax-payer, the advantages should not become the closed preserve of a group. The propriety may well be questioned of enrolling under the co-operative banner a society most of whose members are big landlords, such as the Okara Zamindari Sale Society in the Punjab, for example, whose success was mentioned approvingly in the Reserve Bank's 1939-40 review.⁹⁷⁵ Its thirty-six members sold in that year Rs 11 lakhs' worth of products. Its demonstration of the possibilities from member loyalty has its value and it is of course highly desirable that men of property should be drawn into the Movement. They can supply a stabilizing factor in societies in which men of small means predominate. Societies restricting membership to a particular community can no longer be register-

ed, for example, in Bombay. Would it not be desirable to rule out also exclusive groupings in terms of economic status?

Other weaknesses of the Movement have been the almost exclusive emphasis for so long on credit—though the pendulum is swinging now in the other direction—and the inadequate linking of credit with thrift and with other co-operative lines; the tying up of funds in long-term loans; the overdue problem; the frequent defects of management and shortcomings in the attitude and policy of certain central institutions.

Administrative weaknesses have also played a large part in the failure of the Indian Co-operative Movement to achieve more than it has been able to. Among these has been apparent lack of vision, on the part of many Department officials, of the problem as a whole and of the possibilities of the co-operative approach to the country's problems. It has happened, for example, that, in spite of justified complaints of scarcity of funds, the full amount sanctioned by the Government has not been availed of, as in Bhopal in 1941-2.⁵⁵⁷ Another major shortcoming in not a few instances has been irresponsible propaganda.

Propaganda is very necessary if Co-operation holds the hope which its proponents believed that it did, but there has been failure in some cases to present the picture fairly. The Co-operative Departments cannot be held responsible for the advertisement sponsored by the National War Front which appeared in *Mysindia* on 30 December 1944, which named co-operative societies among investments that were 'absolutely secure', a claim certainly unjustified by the record. The uninformed enthusiast in such a cause as the Co-operative Movement is a public menace. As Diwan Bahadur K. D. Mudaliar wrote in 1938, 'Philanthropy and enthusiasm are certainly important in the scale of human values but they cannot be a substitute for business principles'.⁵¹⁷ In Orissa, he found not only that certain honorary orga-

nizers had let their enthusiasm run away with them but also that official enthusiasm, combined with lack of required technical knowledge, had been responsible for part of the unsound financing of artisans' or industrial societies.⁹⁶⁹

Frankness in the propaganda is a *sine qua non*. To encourage ignorant villagers, for example, to accept unlimited liability without explaining its full significance and the risk they run falls, from the point of view of moral if not of legal responsibility, not far short of criminal breach of trust. Those who paint only the bright side of the picture to prospective co-operators do them a grave disservice. They need to be impressed with the fact that very many who were attracted to the Movement but did not play the game according to the rules, who succumbed to the lure of facile credit, who failed to appreciate the implications of collective responsibility or who in some cases only fell victims to a combination of inauspicious circumstances, have been ruined. For their own safety and in common fairness the facts should neither be glossed over nor suppressed.

Primary society after primary society has gone into liquidation, individual co-operators by the thousand have been brought to ruin, much of which could have been avoided by a sound and conservative credit policy accompanied by the education of the managing committee and members of every primary society in the principles and implications of Co-operation. Co-operation is not a children's game to which all can be light-heartedly bidden welcome. 'Ring-a-ring-o'-roses . . . All fall down !' Great fun for the little tots, but sheer tragedy for the adult co-operator with a family to support. All men suffer from their own ignorance, their lethargy or their folly, in varying degrees, and, humankind being interdependent, all in a sense suffer from each other's shortcomings. But the co-operator puts himself in a position where he is peculiarly vulnerable to the ineptitude no less than to the malfeasance of others, particularly of

those entrusted with the management of the affairs of his society.

Co-operation in India as in Pakistan in the present economic framework and in the light of over four decades of experience needs to be presented only as a possible plank of salvation. If rightly handled, and provided adverse conditions beyond the present control of individuals or of their societies do not frustrate the undertaking, Co-operation can bring the poverty-stricken farmer or artisan to solid land. More hope than that cannot in good conscience be held out. So unfortunate is the economic status of many that they will still join the Movement in their thousands for the conditional hope that it offers. And, with eyes open in advance to the possibilities in both directions, they will naturally be more cautious and their fellow-members and the managing committee will find them less disposed to *laissez-faire*. Members fully aware of the risk but willing to take it, for the hope Co-operation offers of bettering their condition, will be on the *qui vive* to see that the conditions of success are met. Conscious self-interest will then prompt the vigilance which has so often been wanting, in regard not only to amounts lent but also to the uses to which loans are put and the promptness with which fellow-members discharge their obligations, the managerial policy in regard to renewals, etc.

If there is one lesson that the history of the Co-operative Movement in India teaches more than any other it is the need of curbing the common human urge to try to run before one can walk steadily. John Wesley's saying, 'I haven't time to be in a hurry', deserves to be engraved on the pillars of co-operative institutions. Consolidate the position gained and make your supply lines secure before advancing far into new territory is a sound maxim of co-operative no less than of military strategy. This involves the closest possible hook-up between propaganda and co-operative education, which will be discussed more fully under 'Conditions of Success'.

Neglect of education in co-operative principles and practice, for Departmental officials and honorary workers as well as for office-bearers, staff and members of co-operative societies, has exacted a heavy toll. The Reserve Bank put its finger on the difficulty when it said :—

'It appears . . . that the pace of expansion before the depression has been too rapid to have been really sound and contained within itself the seeds of subsequent collapse. It had 'outrun co-operative education'.⁹⁷⁶

The commendable zeal with which many official and non-official workers threw themselves into the organization of co-operative societies unfortunately was not matched by an equal enthusiasm for the more tedious work of educating prospective and actual members in the principles on which Co-operation rests. Again and again the lack of such education has been blamed for the disappointing showing in certain Provinces and States; in none has the ideal in this direction been attained.

The late Professor V. G. Kale said in his report on Co-operation in Gwalior in 1937 that the vital importance of co-operative education and training was very often not appreciated and in Gwalior appeared to have been entirely neglected. 'Inefficiency and stagnation have been the result'.⁹⁷⁷

Almost desperate as the situation appeared in Bhopal in 1944-5, with 867 societies under liquidation and only 321 primary societies functioning, the notation under 'Training and Propaganda' in the Registrar's report is tell-tale: 'No arrangement could be made this year also; no funds being available for this purpose'.⁹⁷⁸

The Travancore Co-operative Enquiry Committee found the absence of the fundamentals of Co-operation not only among members but also in a large proportion of the office-bearers of societies 'probably the main reason for the present decadent condition of the Movement'.⁹⁷⁹ A plea in extenuation is offered by Mr (now Sir) Malcolm

Darling, who has written that 'the difficulty of getting the simplest rules and principles into the heads of illiterate peasants can hardly be exaggerated'.⁹⁸⁰

Two years later Mr F. W. Wace remarked that 'in practice, societies are constantly found in which most, or even all, the members are largely ignorant of co-operative principles'.⁹⁴⁹ We have seen, in the consideration of the educational function of the Provincial institutes, how inadequate is the provision for education in most sections, even with the Central Government grants available in recent years, though in several Provinces, such as Bombay, Madras and the Punjab, great efforts in that direction have been made.

Without a thorough grounding of the supervisory staff in co-operative ideology and practice, its members cannot be expected to impart what they have not themselves fully grasped. Their knowledge of co-operative procedure requires a broad mental background, the broader the better, but intelligent effort on behalf of the Co-operative Movement presupposes also a rudimentary knowledge at least of agricultural economics and some perception of the co-operative effort in its setting.

Failure to fix definitely the limits of Departmental efforts and responsibility seems responsible for some of the administrative difficulties. It seems apparent that in some Provinces the shortage of workers complained of is due in part to the Department's energies being spread in directions outside their proper field. The recovery of dues, as in the Punjab and Indore,⁹⁸¹ the lending of the services of Departmental workers to particular societies, as in Madras, where, on 30 June 1947, no fewer than 162 Departmental workers, most of them senior inspectors, were on loan to various co-operative institutions,⁹⁸² these should not be necessary if members were properly educated in co-operative principles and trained, where necessary, in the special duties connected with societies of new or unusual type.

There have been serious organizational defects in cer-

tain Provinces, though in the more co-operatively advanced Provinces a division of responsibilities with Deputy, Joint or Assistant Registrars on functional as well as regional lines, has been a growing trend. The Bengal Registrar in his 1945-6 report held failure to organize the staff there on functional lines to be responsible to no small extent for the stagnation and deterioration of the Movement in that Province. The Gupta Scheme called for separate branches to deal with credit and non-credit societies, with different sections in each for the work of supervision, etc.³⁶⁸

Neglect of statutory functions in a very large number of cases seems evident from some of the Registrars' reports. By no means all societies are even audited annually, an inadequate staff being commonly the excuse. In Gwalior the policy is to audit every primary society only once in two years, but central banks and important urban societies annually.³⁶³ Elsewhere, e.g. the Central Provinces and Berar,³⁶⁷ the North-West Frontier Province,³⁶⁴ Orissa,³⁵⁷ the Punjab,³⁶⁵ the United Provinces²¹⁴ and Indore, a number of societies have been reported unaudited in different years.

Another point inviting question is the apparent arbitrariness with which the Government's favours sometimes fall. In the absence of full knowledge of the circumstances, it is difficult to see why certain societies should have more help than others in the form of subsidies or loans of Departmental staff. Apparently this is as the Registrar in his wisdom may decide. It seems important that, in a democratic movement, the conditions under which help of this, that, or another type will be given (as in the frequent provision of special subsidies to all new societies of different types) should be everywhere clearly defined, so that the suspicion of favouritism may not arise.

There would appear to be room in many cases for a more definite effort to build up an *esprit de corps* among Departmental workers. It is of great importance that

co-operative workers on the lower levels, tied to their often humdrum and sometimes unpleasant tasks, should catch the spirit of being themselves engaged in a great co-operative enterprise, an attack upon the problems besetting their country to which the best efforts of each in the measure of his ability are due. The Registrar in Ajmer-Merwara mentions having found monthly meetings of the co-operative staff of great value for discussing problems and strengthening morale.⁹⁸⁶

The interest of honorary workers also needs to be woven more firmly into the co-operative fabric, in achieving which frequent District and Provincial conferences have an important part to play. There should not be years between Provincial co-operative conferences, as there had been before the Eighteenth Provincial Co-operative Conference was held in Bombay in 1944. There must be more deliberate effort to attract more honorary workers of the right type to the Movement and the opportunity which it offers for constructive national service, to educate them adequately in co-operative theory and practice and to utilize their services more fully than they have been utilized in the past. The Saraiya Committee stressed the importance of so designing the machinery of consultation and administration that 'there is constant interchange of views and opinions between the non-official co-operators and the officials'. Not only, it is pointed out, will popular opinion be based on actual experience of the working of Co-operation, but the close association of non-officials with the Movement will serve to emphasize its democratic nature.

While the State can only assist and guide the Movement, its growth as a live force for the development of the country will depend upon the popular support that it will get through close and continuous association with non-officials.⁹⁸⁷

The late Professor V. G. Kale proposed for Gwalior an Advisory Council of earnest and active honorary workers and of the representatives of co-operative institutions in

the various Districts, and that the Registrar consult it and take it into his confidence in respect of measures to be adopted for the development and progress of the Movement,⁹⁸⁸ a suggestion deserving wide adoption.

Inadequate arrangements for expert counsel must be accounted another administrative weakness. In certain States a financial adviser has been formally appointed; in all, one is very desirable though, in many, volunteer service may be available. The Co-operative Planning Committee recommended the provision of the necessary consultative staff in connexion with industrial societies, for example—two nominees with special knowledge of industrial finance, another engaged or interested in wholesale trade in the products of local industries and two others with technical knowledge of the industries, or markets, or finance or business in general.⁹⁸⁹ Such advisers are no doubt consulted by the Departmental officials in States where industrial co-operation is relatively prominent; their counsel is needed elsewhere also for its development upon sound lines. And so on down the line of special interests concerned in the expansion of the Movement.

Besides being available for frequent consultation, such experts might well form, with the senior staff members at headquarters and prominent honorary workers, the Registrar's 'Cabinet', meeting at fairly regular and not too infrequent intervals for consultation upon policies and trends. It should be possible, with the right approach, to get not mere well-wishers who have not succeeded very well themselves, but top-ranking men in their respective lines, who 'know how' and are willing to give the co-operative efforts of their less fortunate neighbours the benefit of their financial, business or industrial experience.

Inadequate contact between co-operative officials in different parts of the country has been mentioned. Visits to other States, by those to be in charge of a new line of co-operative work which has been successful there,

are of course desirable, but even more important are adequate contacts between the Registrars and between them and leading workers throughout the country, so that news of promising developments and methods may more quickly spread. More frequent all-India co-operative conferences, with provision of time for short reports of one or two significant developments in the several States should be of great value.

The Departmental delays sometimes complained of, where not due to involvement in red tape, should be reduced when the Co-operative Departments are more adequately staffed.

Reluctance to relinquish authority has been charged against co-operative officials, in some cases only with apparent justice. No one could be more circumspect or put himself forward less at a Provincial Co-operative Conference, for example, than did the Bombay Registrar, Shri B. P. Patel. But for one Registrar like Shri M. R. Bhide, I.C.S., who in his report from the Punjab for 1944-5 advocated official withdrawal as soon as, and to the extent, possible,⁹⁹⁰ there are probably a dozen who see no early possibilities in that direction. The Bengal Co-operative Societies Act of 1940 was exceptional in providing that the Registrar's powers in respect of any co-operative society might be transferred to a well-managed co-operative society of which it is a member.⁴¹² It is significant that, while the Bombay Government's proposed large share holding in the Provincial Co-operative Bank, announced in June 1948, carried no voting rights, it was specified that the Government should have 'the reserve power to frame and impose by-laws'. There was the same proviso for the Provincial Bank in relation to central banks and banking unions.⁹⁹¹

In India and Pakistan, on account of the abnormally wide gap subsisting between the privileged and the under-privileged, due largely to the masses' lack of educational opportunities, a more special effort has to be made by Department officials than has always been

made, to retain the human touch in their contacts with the members of primary societies. A *de haut en bas* attitude may defeat the very object of the Registrar's tours. Shri Prem Chand Lal, in his study of 'Rural Development in India' in *The Aryan Path* for October 1948, contrasts the approach of co-operative officials to the villagers in Yugoslavia with that in India. In the former, there was, he found, no attitude of superiority displayed, no feeling of inferiority produced. The members of the village societies felt quite at home with the officials, who ate with them, not merely condescending to accept their food, and talked with them as man to man. In India, he declares, the high co-operative officials visit the villages attended by a retinue of petty officers and liveried chaprasis, who overawe the simple village folk.⁹⁹² In India, food is hospitably urged upon the visitors by an embarrassing number of members, but whether there is always perfect frankness in the expression of their views and needs may be doubted. Co-operative societies are not charitable institutions, nor are their loans alms. The self-respect of the members of such societies is an important element in the feeling of responsibility which the Movement seeks to encourage; it should be jealously guarded by all concerned. If retainers' uniforms make the villagers feel insignificant, should not the chaprasis wear on tour the simple costume of the villages?

Most serious among the weaknesses connected largely though not wholly with administration is the growing trend away from the co-operative ideal. I do not refer primarily to the trend towards increased officialization, marked though it has been, although against it must be set such a striking step as the entrusting of the education, even of high co-operative officials, to a non-official body, the Provincial Co-operative Institute in Bombay. The possibility of appeal from the Registrar's decisions to a non-official Provincial Co-operative Tribunal or Council such as, for example, those which have been formed in

Bombay, should be another corrective to exaggeration of this trend.

Nor do I refer to the necessary insistence on the observance by co-operative societies of sound banking practices; nor to the 'controlled credit', which, in the interest of the group, waives part of the opportunity for character training which ideally Co-operation offers to the individual; nor even to the now firmly entrenched preference for tangible security, which needlessly restricts the Movement's privileges chiefly to the more economically favoured. I refer to the trend to compulsion which has been growing in favour in the last few years and which holds a threat not only to all beyond the strictly material ends of Co-operation but even to democracy itself.

As early as 1939, the Thirteenth Conference of Registrars declared that no one should be forced to join a co-operative society, whose decisions, moreover, should not be binding on non-members.⁹³ It opened the door, however, to the insidious growth of the contrary principle by the concession that, where the provision of some utility service was involved, if at least two-thirds of those concerned considered it desirable, compulsion might be applied. The proposal, for example, was made in Bihar a few years ago, that in villages where two-thirds of the cane growers had become members of co-operative societies the remaining growers should be compelled by law to sell their cane through the societies.⁶⁵²

The Fourteenth Conference of Registrars (1944) passed the following resolution:—

Where the extension of a plan requires action by all members of an economic category or group, it should be made compulsory for all either to join a co-operative society for the purpose or otherwise to carry out the plan.

The Saraiya Committee Report (1946) went further and, after paying its formal respects to the voluntary principle governing co-operative effort, conceded that

when, in certain activities essential for economic progress, like consolidation of holdings, crop protection or irrigation, the desired object could not be attained without resort to compulsion, 'a resolution passed by the members of a co-operative society who form two-thirds of the community should be made binding by law on non-members also'.⁹⁹⁴ When it is remembered that general meetings of rural co-operatives are notoriously badly attended, and that a majority of those present and voting is sufficient to pass a resolution, it can be imagined what power this would put in the hands of a few. The proviso that a responsible agency should be set up to determine whether a particular scheme is essential might mitigate the possible results but does not affect the principle, which from the point of view either of co-operation or of democracy seems wholly wrong.

Nor is the principle affected by the Committee's assurance that 'responsible nation-building Departments of the Government with a new outlook will be able by means of education, propaganda, persuasion, demonstration and denial of privileges to non-members to bring about the organization of co-operative activities along planned lines without resort to compulsion'.⁹⁹⁴ Education and propaganda may or may not bring about unanimity, but the admission of the wolf of compulsion into the co-operative fold is in any case unjustified and fraught with danger. It represents the thin edge of the totalitarian wedge. It is precisely because, as one high official expressed it to the writer in August 1948, 'The climate of opinion has changed in recent years and greater interference in people's lives is taken as a matter of course', that democratic countries should be on their guard.

The 'co-operative' (really collective) farming scheme put forward by the Rayalaseema Co-operative Enquiry Committee (Madras) in 1946 under the name of 'project areas' approved compulsion at the will of a two-thirds

majority. No scheme of the kind proposed, they declare, can work 'if individual owners of land to be included in the farm are given the right of non-accession to or secession from the farming society', which they seek to justify by the 'changed outlook on social order and economic organisation'.⁷⁰⁴ Everyone would deny that the owner of a big farm which surrounded a small farm on three sides would be justified in demanding that the small farmer join him against his will in a common enterprise. Does that which is wrong for one neighbour become right when several or all his neighbours try to enforce their will on the dissenter? Moscow lies that way.

Such action is obviously *ultra vires* for societies as the Co-operative Acts stand at present and it is to be hoped that the proposal to bring coercion of non-members within the power of co-operative societies will be stoutly resisted. If such amendments are passed there is still hope that the Courts may have something to say in defence of fundamental rights, though the probable victims of such aggression (strictly, of course, in their interest as well, like the recent Greater Asia projects of Japan) will probably be the most ignorant and defenceless members of their communities and hence least likely to seek judicial redress.

Apropos of the proposal to force the reluctant, willy-nilly, to co-operate, attention may be drawn to the provision in the United Nations' Universal Declaration of Human Rights (Article 20, Sub-section 2) that 'No one may be compelled to belong to an association'. Is this provision to be flouted in the name of Co-operation?

The very assumption by the co-operative organization in a State, as recently in Bombay, of the responsibility for carrying out the objectives envisaged by the Agricultural Finance Sub-committee for the Agricultural Credit Corporation which it had proposed, puts it in a position where abrogation of co-operative principles may be difficult to avoid. The Hon. Shri V. L. Mehta, presiding over the Indian Agricultural Economics Conference early

in January 1948, admitted that if the task envisaged for the Corporation was to be quickly and satisfactorily accomplished 'a compromise with the principle of voluntary action and autonomy is inevitable'.

Which is more important in the long run, that the co-operative structure should serve as the only credit agency subsidized by the state, or that co-operators should remain true to their principles, accept the impossibility of developing on sound co-operative lines with sufficient rapidity to meet the need of all credit-worthy individuals, and leave it to a supplementary agency to try to do what it cannot at the moment without departure from its own *dharma*?

Which is more valuable to the country, that immediate material benefits should be made available to as many of a group as possible, at the cost if need be of the ideals which are the heart and soul of the Co-operative Movement, or that the Movement expand no faster than is compatible with those ideals? In the former case we shall have a soulless mechanism, however efficient; in the latter, given proper fostering, we shall have a Movement that promotes the development of individual character and the progressive realization of national unity and human brotherhood. Mr E. R. Bowen, General Secretary of the Co-operative League of the U.S.A., once called the Co-operative Movement 'a plough guided by a star'. Co-operators, members, honorary workers and officials, all need that star to plough their furrows straight.

Co-operation will have failed of its chief mission unless, as Shri V. L. Mehta has declared, the co-operators bring into their combination for a common economic end 'a moral effort and a progressively developing realization of moral obligation'.⁴²⁸ It is, to say the least, inconsistent and futile, to push forward co-operative expansion regardless of principles because economic prosperity is recognized to be so necessary as a bulwark against Communism, while at the same time welcoming the Commu-

nist ideology into the fortress by introducing the principle of compulsion into co-operative effort.

Coercion to ensure the carrying out of obligations freely assumed falls in a very different category from the imposition of obligations without the consent of those concerned. Where the obligations have been undertaken without adequate knowledge of the responsibilities and risks involved or where the failure to fulfil them is due to circumstances beyond the defaulter's control, even legitimate coercion may work undue hardships, but it does not strike at the roots of the co-operative ideal as does enforced participation in a nominally co-operative undertaking.

Dr Rajendra Prasad said truly at the Fifteenth Conference of Registrars in 1947 that 'there is an element of democratic freedom inherent in co-operation and this freedom has to be prized above all things'. Compulsion in Co-operation is a contradiction in terms and a denial of the very genius of the Movement.

Achievements of the Indian Co-operative Movement

Incommensurate as the progress of the Indian Co-operative Movement has been with the hopes with which it was launched, it is impossible to concede that the effort has not been worth the money and effort which have gone into it. The money-lender, to be sure, was found by the Gadgil Committee in 1945 to be still 'the most important constituent of the agricultural credit machinery of the country',⁹⁵ though they declared that the credit he dispensed 'instead of contributing to the agricultural prosperity of the country serves as a serious drag upon it'. The defenders of Co-operation can, however, justly claim that it has helped to break the money-lenders' monopoly and brought interest rates down, having attracted considerable sums and made them available to those in need of credit at rates at least well below the money-lenders'. Through its land mortgage banks it has facilitated the

gradual redemption of the agriculturists from debt. It has also, by its consolidation of holdings work and otherwise, promoted agricultural improvement and subsidiary industries, has impressed a portion of the people with the value of combined effort and of thrift; has aided members in the purchase of their requirements and the sale of their products and in isolated instances has given a convincing demonstration of the possibilities of a concerted co-operative attack on many aspects of the small man's problem. It has, moreover, offered a large number of non-officials a very useful outlet for philanthropic energy. The Co-operative Movement is conceded by the Reserve Bank to have reached a stage where it can be 'counted as a factor in the economic, social and political development of rural India'.⁹⁵⁵

Mr F. W. Wace wrote in 1939 of the Movement in the Punjab that 'there is a sound core which has come through a period of severe trial with its spirit and its resources remarkably little impaired'.⁹⁹⁶ He estimated at that time that the finance afforded by the co-operative societies was from 7 to 8 per cent of the total needed by all Punjab agriculturists. The extent of the coverage of villages and population by the Co-operative Movement has been discussed above.*

The restoration of public confidence in the Provinces and States where rehabilitation has been in progress, after the Movement there had gone almost on the rocks, in itself shows the inherent viability of the Movement where conditions are at all favourable. Many former landless labourers in the Alamuru District of Madras were reported by 1930 to be independent agriculturists, with long-term leases on advantageous terms made possible by credit from the co-operative societies. In one village of 100 families almost all were independent cultivators, where six years before only four had been. At Kapileswarapuram, Madras, when the co-operative society was started in 1919 there were 80 families of independent agricul-

* See p. 278.

tourists; in 1930 there were reported over 400.⁹⁹⁶

That the Co-operative Movement is a factor to be reckoned with in the money market is obvious from the size of its working capital—in 1945-6 over Rs 164 crores. The co-operative societies have done much to meet the deficiencies of the Indian banking system. It is generally conceded that Co-operation has done great good in spreading the banking habit and popularizing cheques and demand drafts.

The advantages of the societies in training their members in business methods and leadership go almost without saying. Many a peasant's greater independence today, contrasted with his former helplessness in the affairs of business, must be credited in part to the co-operative societies.

The reduction of friction, reflected in the decrease among members of co-operative societies in the litigation to which the Indian cultivator has been so much addicted, may doubtless also be credited to the influence of Co-operation.

The zeal which the unpaid officers of the co-operative societies often put into their task has been commented upon frequently. Mr R. B. Ewbank, a former Registrar in Bombay, has written:—

It is startling to discover how often the opportunity brings out the man and how freely the man spends himself and is spent when he sees a great goal before him, and is shown a path by which he may attain it. Such are the men with whom the future hopes of the movement lie.⁹⁹⁷

The Registrar in the Punjab recorded in his report for 1929-30 the case of a sixty-year-old retired military officer in that Province who walked forty-two miles each way to represent his society at the general meeting of its central bank,⁹⁹⁸ and in an unofficial comment on the incident, quoted aptly from *As You Like It*—

O good old man, how well in thee appears
The constant service of the antique world,
When service sweat for duty, not for meed.

THE CO-OPERATIVE MOVEMENT IN INDIA

Lord Linlithgow, Chairman of the Royal Commission on Agriculture and later Viceroy of India, has said: 'Mere numbers are not a measure of success in co-operation. Quality is the test, and quality is to be measured as much by the extent to which membership improves the general outlook of the individual member, as by any betterment that it may effect in his economic condition.'⁹⁹⁹

Increased openness to suggestions for improved methods of production may be mentioned as an important by-product of the Co-operative Movement.

If, as suggested earlier, co-operative societies in general have not risen to the height of their opportunity for public service, there have been striking instances of particular societies transforming their villages and rendering all manner of contributions to the well-being of the community. It must also be entered to the credit of the co-operative societies that, except in the case of the comparatively few which are still on a strict caste basis, they have brought together on an equal footing people of different castes and creeds in an enterprise for their mutual benefit. This not only has encouraged a feeling of community of interest in the villages, and among industrial workers, but indubitably has represented a conspicuous contribution to national unity. If Co-operation did not do as much as might have been hoped for in this direction, it at least made its contribution to stemming the tide of divisiveness and communal friction.

CHAPTER V

DIRECT STATE AID AS AN ALTERNATIVE

WE may consider briefly the different forms of direct state aid as possible alternatives to the Co-operative Movement for India and Pakistan, it being borne in mind that in neither country is it a choice between Co-operation and Governmental inaction in connexion with the pressing problems which the Movement is attempting to help to solve. The problems are too urgent, the conditions so bad that, as Diwan Bahadur K. D. Mudaliar pointed out in Orissa in 1938, *laissez-faire* is impossible for any Government claiming to govern for the benefit of the people.¹⁰⁰⁰ Sooner or later popular uprisings would be the price of doing nothing to ameliorate conditions. The choice is between co-operative finance and some form of direct Government loans to individuals, of which the *takavi* loans to agriculturists, under the Agricultural Loans Act,* have been the commonest. The Gadgil Committee remarked that such loans were properly closely connected in their origin and their operation with times of distress or famine, and that all the Committees had agreed that that Act should be confined to times of emergency and stress and not be used more extensively in normal circumstances.¹⁰⁰¹

Takavi loans have, however, been advanced, not only in times of threatened famine, as in Gwalior in 1927-9,¹⁰⁰² but also in Bombay in 1948 for bullock purchase by parties to proceedings or awards under the Provincial Agricultural Debtors' Relief Act, and in many Provinces and States for productive purposes—the sinking of wells, etc. One objection brought against such loans as a general proposition is that raised by the Berar Co-operative Enquiry Committee, which pointed out that the

*See pp. 45-6.

vast business of financing agriculture in general would put too great a strain upon Government finances.¹⁰⁰⁰ Another main drawback of the *takavi* system is that it only furnishes cheap capital and makes no provision for cultivating thrift and self-help.¹⁰⁰³ The borrower has no interest in the welfare of his fellow-borrowers, no participation in profits, supposing there were any, and no control over the management.¹⁰⁰⁴

Loans cannot be advanced under either the Agriculturists' Loans Act or the Land Improvement Loans Act for either the redemption of old debts or the consolidation of holdings. There has, moreover, been wide-spread ignorance about the facilities for credit and the procedure necessary to secure *takavi* loans,¹⁰⁰⁵ which have been positively unpopular besides. This is attributed partly to the delay and uncertainty in getting the loan, due to the careful inquiries the administrative officials are required by the Act to make, and partly to the rigidity of the system of collection.¹⁰⁰⁶ In short, the *takavi* system is claimed to have failed in its primary purpose of stimulating agriculture.¹⁰⁰⁴

Diwan Bahadur K. D. Mudaliar explained the unpopularity of *takavi* loans as due in part to the fact that gratuities had to be paid to Government subordinates, whose favour must be gained at each step of the many necessary ones.¹⁰⁰⁷ Other, and it is to be hoped more general, objections to state loans were cited by the Gadgil Committee, quoting the Irrigation Commission—the high rate of interest, the rigidity of collection, the onerous terms regarding periods of repayment and conditions relating to securities required.¹⁰⁰¹

Additional objections to state loans have been cited by the late Professor V. G. Kale in connexion with the loans of the State agricultural banks in Gwalior, that the loans being given there for short or long periods and in good or bad years gave the agriculturist little incentive to save in good years and encouraged reliance on the State at the expense of a self-reliant spirit.¹⁰⁰⁸ There is no gainsay-

ing that, as he pointed out, the co-operative societies hold greater potentialities, offering, besides financial assistance, training in organized effort, education and cultural opportunities, for their members' economic, moral and social benefit.¹⁰⁰⁹ It may be mentioned that the co-operative societies in Gwalior were handicapped by having inherited the debts of their agricultural bank predecessors, many of which proved impossible to collect.¹⁰¹⁰ Similarly in Indore, the central banks had been saddled with the old famine *takavi* loans, dating from 1918.

Direct state loans, moreover, may involve the state in a dilemma, as Diwan Bahadur K. D. Mudaliar pointed out. People were likely to take their indebtedness to the state more casually than debts to the usurious money-lender and would not be subjected, either, to the moral suasion of fellow-members of a co-operative society. It was 'more than probable,' he said, that 'when wide-spread default in repayment becomes general sooner or later, the State must either write off its loan or be prepared to face the odium of selling up its peasantry, when it will be held up to public execration'. The danger that direct financial help from the Government on any large scale would kill enterprise was also present, he declared.¹⁰⁰⁷

Whatever little may be said for *takavi* loans as a substitute for the co-operative effort, it should be recognized that the offering of such loans for land improvement at lower rates than the co-operative land mortgage banks can offer constitutes, as already mentioned, a serious incursion into their legitimate field.^{897*}

The Agricultural Credit Corporation proposed by the Gadgil Committee for setting up by the Provincial Governments was not conceived as a substitute for Co-operation, but as a supplement, to operate in areas where there are no co-operative societies and to encourage their formation while not waiting for it to make direct finance available to credit-worthy borrowers. The Gadgil Com-

*See p. 268.

mittee saw no objection to co-operative societies discharging the functions proposed for the Corporation in Provinces where the strength of the co-operative financing agencies permitted. The financial side of the Movement is particularly strong in Bombay and its Provincial Agricultural Credit Organization Committee recommended that the co-operative financing agencies, suitably reorganized, take on in that Province, with state aid, the functions of the proposed Corporation, a recommendation which the Provincial Government accepted.

The acceptance in that connexion of the policy of admitting 'nominal' members may prove an undermining influence. If the tangible benefits of Co-operation are made available to some without the corresponding responsibilities being assumed by them, dissatisfaction on the part of members, especially of societies with unlimited liability, seems but too likely.¹⁰¹¹ The danger to be avoided is that warned against by Shri M. G. Mehkri, Deputy Governor of the Reserve Bank of India, at the Thirty-fourth Mysore Provincial Co-operative Conference in December 1947, namely, that the Co-operative Movement may take on this large additional burden at the sacrifice of 'its vital principles which alone give the Movement its strength'.

There are numerous Provinces where such a rapid expansion would be fraught with peril. It remains to be seen whether even in Bombay adequate heed will be given to the caution of the Nanavati Committee that the quality of the Movement should be steadily maintained during the expansion, and that at no stage should the growth of the co-operative societies overreach the capacity of the organizational and management staff to look after them.¹⁰¹² There seems little doubt, however, that the Nanavati Committee was right about the serious competition which an Agricultural Credit Corporation in Bombay would have offered to the Co-operative Movement there.¹⁰¹³ Wherever such a Corporation is set up,

the effect on the Movement must be very carefully watched.

Advances of seeds and manures to non-members as well as to members are provided for in the by-laws of the reconstructed credit societies in Bihar in connexion with the modified *Crédit Agricole* scheme put into effect there in November 1944.¹⁰¹⁴ Under that scheme the Provincial Bank, controlled by the Government as a condition of its guarantee against loss incurred in its working up till 1951,¹⁰¹⁵ uses the reconstructed central banks as agents for its loans. Loans to non-members are at a higher rate than loans to members, to encourage joining co-operative societies; also loans for cattle purchase, etc., are made only to members. The security for produce loans is the crop in hand; for other loans, the charge on the crop, coupled with the borrower's immovable property; no sureties are required. The scheme had, by the time of writing the Registrar's report for 1945, improved the position of the Provincial bank so much that it was expected to be capable not only of solving the problem of rural finance but also of placing itself and its central banks on a sound financial footing.¹⁰¹⁶

The Egyptian scheme, on which that in Bihar is a variation, is said to have practically eliminated the usurious money-lender in Egypt by its low rates to the co-operative societies, which are passed on to members. But Co-operation suffers from there being no incentive for societies to build up their own funds, and also from the bank's taking direct action to collect the loan.¹⁰¹⁷

The Government of India set up in 1948 the Rehabilitation Finance Administration under an Act of that name recently passed, to give loans on reasonable terms to displaced persons to enable them to settle in business and industry. The period of loans was limited to ten years, the amount to Rs 5,000 and the interest rate to 6 per cent. Assets created from the loan were to be considered mortgaged to the Administration for repayment of the loan with interest. The aim was stated to be to provide greater

credit facilities than the Provincial Governments' schemes for refugees and to assist all whose cases were not covered by the latter. Such a project as this, to assist a special group in the abnormal situation caused by the great exchange of populations following the drastic communal disturbances in 1947, was restricted to a special context and should not greatly affect the Co-operative Movement.

It seems apparent that none of the potential rivals of the Co-operative Movement is likely to be able to replace it or to confer benefits compensating for those that would be lost if it were superseded. But if Co-operation is the most promising of the possible alternatives, it is not the only one and, in view of the amount of state help which it demands and receives, it will be well for co-operators to bear in mind the warning of Shri S. M. Ikram, I.C.S., in his report as Bombay Registrar for 1944-5, that 'if the co-operative societies are to become not a vested interest but a powerful instrument of public service, they will have to see that they provide a more efficient means of service to the public—especially the rural masses—than is today available in other quarters'.¹⁰¹⁸

CHAPTER VI

CONDITIONS OF SUCCESS

THE first condition of success for the Co-operative Movement in India and Pakistan is integration, the fitting of Co-operation into a co-ordinated effort to improve the condition of the masses. Many of the measures necessary are beyond the unaided efforts of Co-operation, such as those to check inflation, to stabilize prices of agricultural products, to introduce large-scale irrigation and land-reclamation projects, to provide for the retiring from cultivation of sub-marginal lands and for education, for medical relief and for the solving of a host of other problems which have been named as aspects of the many-sided need of the small farmer and the small industrial worker for relief and aid.

There is a measure of co-ordination in the approach to the cultivator's problem by different welfare agencies of the Government, such as the Departments dealing with Co-operation, Agriculture, Sanitation, Education, Industries, Public Health and Irrigation, but in many States there is unquestionably room for a closer linking of their efforts. The Madras Committee on Co-operation of 1927-8 proposed periodical conferences, at least once a quarter, of directing District officers of the Co-operative, Agricultural, Veterinary and Industries Departments and, where possible, of Presidents of Central Banks and Co-operative Federations as well, to co-ordinate their activities,¹⁰¹⁹ an admirable suggestion on which other States might well act. It goes without saying that the Co-operative Departments in all States should be eager to take advantage to the utmost of any available co-operation in improving the status of the societies' members.

The failure to see the picture as a whole is responsible, for example, for such a slip as was made in Indore in failing to make special provision for co-operative debts

in the debt relief legislation, which had adversely affected the Movement in that State,¹⁰²⁰ now part of one of the newly formed States in the Indian Republic.

The enlisting by the co-operative effort of the sympathy and reciprocal co-operation of the Panchayats, the traditional village authority for many centuries, now being revived in many sections from the virtual coma into which they had fallen under the centralized alien rule, is an important aspect of the integration effort. The same would apply in the Central Provinces and Berar to the Janapada Sabhas, in which the people have been associated with the local and District administration. The Bombay Government took steps to facilitate a *rapprochement* between the societies and their villages by directing that the former provide under their by-laws for the appointment of rural development sub-committees to which representatives of the District Rural Development Board would also be nominated to serve as a liaison between the Board and the villagers.

The need for integration of the Movement has arisen since Co-operation was taken over by the Provinces as a transferred subject in 1919. That need is now widely recognized and a variety of suggestions have been put forward. Sir V. T. Krishnamachari, presiding over the Madras Provincial Co-operative Conference on 28 October 1944, proposed an Imperial Council of Co-operation to study the problems connected with the Movement, to serve as a clearing-house for information on the subject, to conduct research, train workers and advise the Provincial Governments. It should, he suggested, work in close harmony with the Imperial Council of Agricultural Research. He envisaged similar joint councils in the Provinces, on which all Departmental officers dealing with village life would sit, and a 'Ministry of Development' in which all related activities would be centred.

The Saraiya Committee in 1946 proposed such an All-India Council of Co-operation,⁹⁸⁴ in addition to Provin-

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cial Co-operative Councils,¹⁰²¹ and the Fifteenth Conference of Registrars appointed a sub-committee to evolve an All-India Co-operative Organization or Congress on the lines which that Committee had proposed.*

The Saraiya Committee had proposed an All-India Co-operative Institute of Advanced Studies and Research and the Indian Co-operative Union, since brought into being on the lines indicated in the Addendum to Chapter VII, has among its main functions the organizing of Co-operative education, training and research. Research is needed if the Co-operative Movement is to profit by the experience of the past, and all too little is being done in that line, except by the Reserve Bank's Agricultural Credit Department at Bombay. Research is a function which can best be conducted from the Centre, with the Co-operative Departments furnishing the facts and applying the findings, though there is ample scope for complementary local research projects, supported perhaps, as the Reserve Bank has suggested, from the profits of the provincial bank. Research findings on a local scale but of general value should be widely disseminated through the co-operative journals to which factual and interpretative articles on co-operative ideals and developments in India and Pakistan and elsewhere might be contributed by official and non-official workers in the field. By serving as a clearing-house of projects and experiences they can not only help to obviate duplication of effort but also doubtless prevent the repetition of many a blunder. With a broadly sympathetic editorial policy, an All-India periodical like the *Indian Co-operative Review* has an important role in uniting the different aspects of the Movement in an organic unity.

It may be mentioned in this connexion that the language problem in India is bound to lay increasing difficulties in the way of both research and the fruitful exchange of ideas. To be off with English before any

*See Addendum to Chapter VII.

Indian language is sufficiently widely known to be the common medium of educated people is to handicap both integration of effort and national unity, besides placing an almost insurmountable barrier in the way of inter-staff contacts and exchanges.

A review of the working of the Co-operative Department in Sind, issued early in April 1948, reported that the Co-operative Departmental machinery of that Pakistan Province was on the verge of collapse; several banks and societies were finding it difficult to carry on their day-to-day business and some of the banks had had to close their doors—because of the wholesale migration of the Hindu staff. The attempt to fill the vacuum with refugees from the Indian Dominion was handicapped by their ignorance of Sindhi, which was of course necessary for dealing with the agriculturists of the Province.

No less important is proper co-ordination of the different lines of effort within the Co-operative Movement itself. Agreement has to be reached and the lines have to be clearly drawn between the functions of education, propaganda, supervision, execution of awards, etc. The allocating of responsibility for definite functions to specific agencies will help to obviate everybody's duty in theory being nobody's duty in practice.

The almost bizarre diversity of pattern in the alignment of co-operative activities throughout the subcontinent conveys the inescapable impression of disregard of the truism that 'Before one builds a house, one makes the plan'. The Co-operative Movement in India, for all the sporadic assistance of the Provincial Governments, seems to a considerable extent, like Topsy, to have 'just growed'.

The comprehensive, thorough and far-seeing plans outlined by the All-India Co-operative Planning Committee in its report, which can hardly be too highly praised, represent the type of thinking that should have gone into laying the foundations of the Movement in this country. Co-operation in its modern phase did not originate with India and far more use could have been made of

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the experience of other countries with it. The order 'Fire!' was given in very many cases before the range had been found.

One of the primary objects of such an All-India Co-operative Institute of Advanced Studies and Research as was proposed by the Saraiya Committee¹⁰²² should be the objective evaluation of the present set-up in the light of experience here and abroad. It will be for the Indian Co-operative Union to sponsor such a project, consider its findings, and take appropriate steps in the light of those findings for the integration of the different lines of co-operative effort. The implementation of such recommendations will, of course, depend upon the Provincial Governments, but the Provincial Co-operative Councils proposed by the Fifteenth Conference of Registrars, with non-official as well as official workers on their executive committees,³⁴⁶ will have an important advisory role to play.

Frankness in propaganda and thoroughness in co-operative education are important factors for success. In the education of all workers in the Movement, the paid workers in the co-operative societies must not be overlooked. They need more than mere technical efficiency; they need to be imbued with the co-operative ideals. As Sir Janardan Madan said at the Bombay Provincial Co-operative Conference in April 1948, apropos especially of societies' taking up specialized activities—

The stability and sound working of all these societies must depend upon the efficiency, honesty and loyalty of their paid employees. There are certain obligations implicit in co-operative employment. The Co-operative Movement is a democratic movement aiming at the improvement of the standard of living of the common man, through an economic organization which places the service motive above the profit motive. Its ideals, principles and methods differ in this respect from capitalistic enterprise. Co-operative employees, therefore, have to develop a new outlook and standard, totally different from the employees in capitalistic organisations. In order to fit the co-operative

workers to the task, proper co-operative training and education are necessary.

Such a plan as Bombay's Co-operative College and Regional Schools should take care of the training of such workers along with that of Department officials, but the urgent problem of member education will remain until the possession of adequate knowledge of co-operative principles by a certain percentage, say two-thirds or three-fourths, if not all of the prospective members is made a condition of registration of a society. This requirement would take advantage of the first enthusiasm aroused by the propaganda effort, and the response would undoubtedly be better then than later, when the apathy of rural members particularly, to classes arranged for their benefit, has been complained of.¹⁰²⁴ Diwan Bahadur K. D. Mudaliar did not hesitate to recommend six months of propaganda and education before societies were formed.¹⁰²⁵

The standards of such instruction of members should not be made so high that illiterate members of ordinary intelligence cannot follow it. The principles of Co-operation are not so difficult that they cannot be simply conveyed. And certificates should be given on the passing of a simple examination, given orally to members or prospective members who cannot read and write. Such certificates should be required at least for eligibility to office in the society. They are only less important than drivers' licences, which none object to having to secure.

This will obviously require a great increase in the number of non-official workers, but that will in itself be an advantage. The honorary worker who organizes a society might well be required to give its members the necessary grounding in co-operative principles. This is doubtless expected to some extent today, but it is important that the 'examination' be given by another honorary worker, or, better still, by a supervisor or a

sub-inspector, to ensure that the teachings have been assimilated.

The record of the Co-operative Movement in India clearly shows that sound banking and business practices are indispensable to success, conditions practically impossible in the context of wide-spread illiteracy without patient effort on the part of Departmental and non-official workers.

Hardly, if at all, less important, even to material success, is the building up of member loyalty and morale, for which a shift in the emphasis from expediency to the traditional co-operative ideal is required. Shri R. Suryanarayana Rao, Assistant Registrar in Mysore, told me in December 1944 that though 'Each for all and all for each' was taught by the Inspectors, the ideals which had at first outweighed economic considerations were today less emphasized in the co-operator's thought. Ultimately the social and economic emancipation of the poor involves, along with other factors, the strengthening of their own sense of duty. The sense of real human solidarity lies at the root of the elevation of the race, and member loyalty, like official probity, depends in no small measure on the inculcating of the higher and nobler conceptions of public as well as private duties which lie at the root of even material improvement.

The complaint of the Registrar in the North-West Frontier Province in his report for 1945-6, that agricultural credit societies 'are still looked upon in many quarters as mere agencies for the supply of cheap and facile credit and not as co-operative societies where the ignorant are taught the lesson of business and thrift and prudence',¹⁰²⁶ is widely applicable and applies as well to other types of Co-operation.

Shrimati Hansa Mehta, Indian representative on the Human Rights Commission of the United Nations, put her finger on the difficulty when she declared at the Bombay City and Suburban Co-operative Consumers' Conference in March 1946 that the reason the Co-opera-

tive Movement was static was that Co-operation was now regarded not as a philosophy of life but as a matter of convenience. The fact that it had not sprung from the people was only a contributory cause. Taking mutuality in place of profit as the aim would make the Movement vital. The question of loyalty would not then arise. Lack of proper understanding meant an inadequate spirit of service. The success of the Gujarati Stri Sahakari Mandal of Bombay, like that of the Triplicane Stores in Madras, has been attributed primarily to members' loyalty.

Those who join the Co-operative Movement solely for what they can get out of it naturally cannot be depended upon to stand by their society longer than it pays them to do so, unless the co-operative ideal can be brought home to them. It is those possessed of the sense of human solidarity or convinced by co-operative education of the long-run benefits of Co-operation to the group and to the nation who will support it through the periods when prosperity is in eclipse, the periods when member loyalty counts most. 'Co-operation,' Mr F. L. Brayne has written, 'is not merely a matter of registers and entrance fees. It begins in the heart, and until it begins there it can never hope to be a success.'

The late Sir Jogendra Singh said at the Fourteenth Conference of Registrars in July 1944:—

Co-operation can draw its inspiration from the recognition, to quote from Sadi, that we are limbs of one another, that if one part of the body is in pain, the other cannot find rest. It means an awakening of the soul and with it an awakened sense of service.

Happily the Co-operative Movement in India is not without its records of members' standing by their society through a crisis at great personal loss.¹⁰²⁷

The need of the Co-operative Movement for adequate support has been dealt with. A few points may, however, be added, as that the manner of extension of such

support 'has its own importance. Rao Bahadur J. C. Ryan, Madras Registrar, saw no objection to a 'a large measure of State aid to co-operative institutions so long as it is restricted to initial stages and so given as to stimulate the spirit of self-help and mutual help, without distinction of creed, caste or party'.¹⁰²⁸

The recommendation of the Nanavati Committee in Bombay for the building up by the Government of a rural credit stabilization fund to meet losses sustained by the co-operative societies owing to unforeseen calamities seems a reasonable one which other State Governments might well also consider. It called for an annual contribution by the Government for five years of 1 per cent of the total outstandings of co-operative societies in the Province.²¹⁶

The possibilities of a larger contribution from successful societies to the maintenance of an adequate Departmental staff, through audit and supervision fees, court fees for arbitration decisions, etc., are, however, a matter to be borne in mind. As societies become stabilized it is most desirable that they become progressively less of a drain on the public funds on the one hand and, on the other, that they gain the true co-operative spirit that sturdily insists as far as possible on paying its own way. The legal requirement in Bombay for regular contributions out of the profits of societies for co-operative education is a step in the right direction.

Service of the co-operative cause in any capacity is properly a vocation, not merely a job or even a career. But men of capability as well as of good-will are needed. Even in the lower ranks the pay should be sufficient to maintain a family in modest comfort; and a graded system of promotion should take into account attitude, effort and achievement and not merely seniority. It has been proposed that ex-service men should as far as possible be utilized in the Co-operative Movement, after proper training. The sense of discipline which they should have acquired ought to be of value to all of them

as members, but the martinet would be miscast in the Movement's administrative roles. A domineering official attitude may put a wholesome fear of authority into wilful defaulters, but it can never encourage members' initiative or make them receptive to the tedious training necessary to the success of their societies.

What is needed is a firm but not fanatical administrative hand. There must be insistence by the Co-operative Department on central societies' putting their primary societies' interests ahead of their own profits; an *esprit de corps* must be fostered and competent honorary workers attracted and held in greater numbers; self-dependence and interdependence must be encouraged by promoting thrift and inculcating the co-operative spirit; the notion of compulsory co-operation has to be abjured. There must be careful supervision of new or weak societies or new projects of existing societies, but the time seems to have come for experimental relaxation of control over proved societies, subject to Departmental check at perhaps lengthening intervals. The Fifteenth Conference of Registrars (1947) recommended that societies classified for three consecutive years as A or B be encouraged and increasingly left free to manage their own affairs to the maximum extent possible.³⁹¹ Already in Bombay any well-managed society with a substantial turnover or share capital and classified as A or B may employ any professional auditor on the Registrar's approved list.

As for the propaganda effort, outstanding successes advertise themselves as imitation spreads from village to village, as in the Panjavar area in the Punjab, described in Reserve Bank Bulletin No. 4; but added publicity for them speeds up the process. Representation of the Co-operative Movement in the Central and Provincial Legislatures, urged in a Resolution passed at the 1948 Provincial Co-operative Conference in Bombay, does not seem to be the solution for getting the necessary support for the Movement. Co-operation should be above party

lines and the convincing of the members of all parties of the worth and promise of the Movement would seem to be a better line of effort.

The standard of living of the masses has to be raised, and to this the Co-operative Movement can contribute much, but this needs care. India has something better in her ideology than the West's prescription for prosperity by the artificial stimulation of non-essential demand. Remove the shadow of want from the Indian village, by all means, but do not persuade people who would be contented with a healthy and normal standard of life, with the traditional ideals of plain living and high thinking and with a proper balance between work and leisure, that through ambition and the restless piling up of profits lies the way to happiness.

The broadening of the people's outlook by the furnishing of cultural opportunities to members and others would be a most useful supplement to co-operative effort on economic lines.

We cannot better close the consideration of the conditions for success of the Co-operative Movement in India and Pakistan than by recalling what Mr Lewis Mumford wrote in *The Condition of Man*, that the further spread of the Co-operative Movement in our day awaited 'a moral and spiritual regeneration at least as deep, as engrossing, as that which created the protestant personality'. Without such a moral change, he warned, 'co-operation is open to the attritions, diversions and dissipations resulting from the impulses it seeks to supplant: acquisitiveness and worldly self-seeking'.⁴²⁸

CHAPTER VII

THE POTENTIAL CONTRIBUTION OF THE CO-OPERATIVE MOVEMENT

No solution of the problems of the Indian subcontinent which ignores or flouts the national psychology can hope to succeed. An out-and-out materialist among its people is an anomaly—though there are some among those whom Western training has weaned from their ancestral attitude towards life, which for the Hindus is a stage in soul evolution. There is an underlying unity of outlook, despite the surface differences, between the Hindus and the Muslims of both the new countries. Materialism can never conceivably be acceptable to the masses of either country. It is precisely because Co-operation offers a way out that does no violence to tradition that it holds forth the greatest hope of ultimate success. The co-operative ideal is well suited to the genius of the people. 'Each for all and all for each' is in harmony with the Hindus' intuitive perception of the fundamental unity which underlies all apparent diversity as with the Muslims' belief in true democracy and universal brotherhood—and Co-operation offers wide opportunities for mutual service.

Rao Bahadur E. Viswanath, Director of Agriculture in Madras, speaking at the Third Annual Meeting of the Provincial Agricultural Association in November 1944, urged co-operative farming as a golden mean between Capitalism and Socialism, pointing out that it would not impose too much strain on existing methods and systems of cultivation, as collective farming would. 'It would reduce the cost of production without upsetting social traditions and conditions.' Co-operative planning can never lose sight of the ideational background.

The Royal Commission on Agriculture concluded that 'if the rural community is to be contented, happy and

prosperous, local Governments must regard the co-operative movement as deserving all the encouragement which it lies within their power to give'.¹⁰²⁹

The conclusion of the Committee of Foreign Banking Experts appointed in connexion with the Indian Central Banking Enquiry Committee, which the latter heartily endorsed, is still valid today, for both countries. It was that 'The co-operative movement in spite of imperfections and of unavoidable setbacks deserves every possible assistance from all quarters, because there is no better instrument for raising the level of the agriculturist of this country than the co-operative effort, and a strong appeal to the banking interests of the country to assist this movement seems not at all out of place'.¹⁰³⁰

The Provincial Banking Enquiry Committees also, as well as the numerous Committees on Co-operation, have been unanimous in their conviction of the great potential benefits of the Movement, though often critical of its development up to the time of their investigation.

Even the Berar Co-operative Enquiry Committee, which declared in 1939 that 'as an agency for the supply of cheap and productive credit and as a means of improving the lot of the agriculturist, co-operation has proved a broken reed',⁹²⁷ found no reason to believe the essential features of the system defective and believed it deserving of every assistance which the Government could give without undue or unjustifiable risk to its own credit, prestige or position. The previous year 45·7 per cent of the 1141 primary credit societies in the Province had been under liquidation, yet the Committee could proclaim its confidence that, 'given a reasonable amount of help, sympathy and guidance, the movement can yet be rehabilitated and be made available for the alleviation of the ills of the rural population in the countryside'.¹⁰³¹

Obviously the picture drawn by the Co-operative Enquiry Committees or the individual investigators called in for expert diagnosis and prescription when the state of the Movement in various Provinces and States had

become precarious is no more representative of normal conditions in the Co-operative Movement than the case books of a psychiatrist are of the working of healthy human consciousness. The very fact, however, that the Co-operative Movement survived the vicissitudes in some of the areas worst affected during the depression proves that it is sound at the core. It should be unthinkable that all the valuable experience, sometimes so painfully gained, should be scrapped.

As the Reserve Bank remarked in its Review for 1939-40, 'the very travail of the movement served to reveal that no better alternative was possible.'²¹⁷ . . . The movement for rural reconstruction can achieve real and durable results only with the co-operative ideal, and with a co-operative form and organization'.⁴⁴⁹

Mr Hubert Calvert, former Punjab Registrar, wrote in 1939: ' . . . other Departments can tinker successfully with problems affecting the whole Province; they will never get beyond the tinkering stage without the machinery of the co-operative movement.'¹⁰³²

Mr Henry A. Wallace, a former Vice-President of the United States, has called the co-operative philosophy 'the vital idea of the twentieth century that is bound to translate itself in time into the hard facts of social mechanisms and reality. Nothing is more important than that more and more people become actively imbued with the idea of a co-operative society'.¹⁰³³

Accepted by the present Indian Government, the idea of a co-operative Commonwealth, based on equality of rights and opportunity for all, if a larger ideal than the Co-operative Movement proper, yet includes the latter as part of its plan. Sir Janardan Madan, President of the Bombay Provincial Co-operative Institute and a former Registrar, declared in April 1948 that the prospects for co-operative development on sound and healthy lines had never been brighter; nationalist workers of all shades of opinion favoured Co-operation and all recent plans had given an important place to the Co-operative Movement.

The Gadgil Committee remarked in 1945 that 'the spread of co-operation would provide the best and the most lasting solution for the problem of agricultural credit in particular and of those of the rural economy in general'.¹⁰³⁴

Sir V. T. Krishnamachari, presiding over the Provincial Co-operative Conference held in Bombay in April 1948, remarked: 'My conviction is that, with a re-orientation of its nature and aims, the co-operative system offers the best line of advance in India—and that it is possible to achieve under it the progress we have set before us as the target. The principle of co-operation is capable of application to an infinite variety of conditions'.⁵⁸¹

Co-operation which Gladstone well called a great 'man-making' world movement, holds the promise on the subcontinent of India of checking the trend to industrialization, of helping to solve the special problems of refugees and ex-servicemen as well as the larger problems common to the masses, of raising moral as well as economic standards, of teaching democratic procedure and, as Shri V. L. Mehta said in inaugurating the Greater Bombay Co-operative Board on 11 July 1948, of 'laying the foundation of a new social order based on co-operative welfare as contrasted with individualistic competition, in which moral force counts for more than material resources'.

It can not only strengthen national unity but also, through closer links with such international co-operative bodies as the International Co-operative Alliance and the system of exchange of goods with co-operative societies in other countries, make its contribution to world peace.

The economic maladies which the new Dominions of India and Pakistan inherited from the undivided country are numerous and some of the greatest economic disabilities, as we have seen, are admittedly beyond the reach of co-operative endeavour as anywhere at present conceived and undertaken. The economic trouble is deep-

seated and of long standing and full recovery must be correspondingly gradual and slow. But long before economic health can be fully attained, some of the most painful symptoms can be mitigated. There are evils against which Co-operation has demonstrated its effectiveness in some measure and indicated its still greater possibilities for the future. To name some of the chief of these, Co-operation has helped to relieve poverty by reducing members' indebtedness, lowering interest rates, consolidating holdings, increasing productiveness and thrift, lowering the cost of necessities to members, providing for the disposal of their products and discouraging unnecessary social expenditures; it has done something to raise the standard of living; it has increased the country's banking facilities; it has given the people hope. In all these directions and in others Co-operation has made more or less progress although it has so far admittedly affected only the fringe of the situation.

Co-operation in India has not worked the miracle its original sponsors hoped for, but it has taken its place, important now and destined beyond a doubt to become far more so, among the constructive forces working for the economic regeneration of the two countries and the establishment in each of a sound national economy. If, in the light of the history of the Co-operative Movement in India, one's attitude towards it can be only what the Madras Committee on Co-operation aptly called 'a chastened optimism',¹⁰³⁵ yet the evidence is conclusive that its furtherance merits the support of every friend of the people of the Indian subcontinent.

Addendum

THE Committee appointed by the Government of India to consider proposals for the consolidation of the Movement, etc., brought in early in 1949 its recommendations, the chief of which, besides the amendment of the Co-operative Societies Act of 1912, to bring it up to date,

were for the formation of an All-India Co-operative Council and an Indian Co-operative Union and the combining of the Conferences of the Provincial Institutes' Association and of the Registrars of Co-operative Societies.

It was proposed that the All-India Co-operative Council should consist of twenty-two members, ten nominated by the Government and ten by the Executive Committee of the Indian Co-operative Union, with the Minister in charge of Co-operation (then the Minister for Agriculture) as Chairman and the President of the Indian Co-operative Union as Vice-Chairman. This Council was envisaged as the governing force for the Movement throughout the country, co-ordinating and guiding co-operative effort and itself initiating research and other projects.

The Indian Co-operative Union itself, representing all the co-operative interests in the Dominion of India, was brought into being at the Eighth All-India Co-operative Conference, held at Bangalore on 14 and 15 May 1949, superseding the All-India Co-operative Banks' Association and the All-India Co-operative Institutes' Association. Registration of such an All-India body was provided under the Multi-Unit Co-operative Societies Act (Act VI of 1942). Membership in the Indian Co-operative Union is open to all Provincial co-operative societies, institutions and federations. It is to promote the Co-operative Movement throughout the country, with special attention to the organization of co-operative education and training and research in the co-operative field. The All-India Co-operative Congress will hereafter be held under the Union's auspices, the latter's President in the Chair. The preponderance of the non-official element is assured by restricting official representatives to 110 out of 300. The Union has also taken over from the All-India Co-operative Institutes' Association the responsibility for the quarterly *Indian Co-operative Journal*.

Hope for still closer co-ordination of the Co-operative Movement throughout the Indian Republic may, moreover, be entertained on the strength of the allocation of subjects in the Constitution of India which came into effect on 26 January 1950, between the Union Government and the Governments of the respective States—that designation applying to the former Provinces as well as to the territories now called States. For, while 'Co-operative Societies' are under State jurisdiction, the Union List includes Union agencies and institutions for professional, vocational or technical training or the promotion of special studies or research. It is to be hoped that this provision will be fully availed of for the strengthening and standardizing of the Co-operative effort throughout the Indian Republic, and that similar provisions will be made by Pakistan.

Generous assistance to co-operative housing societies is offered by the Government of India in its subsidized housing scheme for industrial workers, formulated in September 1952 and since liberalized. A subsidy and a loan of 25% and 50%, respectively, of the admitted cost of such construction projects should encourage the formation of many more co-operative housing societies than the 39 formed under the original scheme by 12 September 1953. The Indian Government was planning also assistance in rehousing displaced persons through co-operative societies.

CHAPTER VIII

RECENT DEVELOPMENTS IN INDIA

SEVERAL important developments in the sphere of Rural Credit and Co-operation have taken place since the second edition of this book was published. It is the object of this Chapter to review such developments briefly and to provide as up-to-date information as possible.

THE POSITION OF VARIOUS TYPES OF SOCIETIES

The Credit Sector

Agricultural Credit Societies

Agricultural credit societies still constitute the most important aspect of the Movement in India. Their operations are indicated in the following table:

			1947-8*	1950-1
1. Number	...	...	85,260	115,462†
2. Membership	...	...	3,482,852	5,153,907
			(Rs in crores ‡)	
3. Owned capital	...	...	11.35	17.26
4. Deposits	...	...	3.04	4.48
5. Working capital	...	...	23.87	40.96
6. Fresh loans given during the year	...	...	10.45	22.90
7. Loans outstanding at the end of the year	...	...	16.02	29.13

The figures given above are no doubt impressive, but the fact remains that the primary credit societies in several States are in an unsound condition, characterized by a number of weaknesses. Many societies are moribund, existing only in name, and not performing any useful functions. The general features of the working

* Figures are approximate.

† Including 10,464 grain banks out of which 9,548 were in Hyderabad.

‡ The terms 'lakh' and 'crore' signify 100,000 and 10 million respectively.

of these societies are a very small area of operations and low membership (the average membership is 45) making many of the societies uneconomic units; inadequate margins owing to the very meagre loan business; poor owned resources and deposits leading to excessive dependence for funds upon central financing agencies (which themselves are, in many States, weak and uneconomic); lack of trained staff and, as a result of all these factors, high lending rates, which in some cases almost border on the maximum rates which private money-lenders have been allowed to charge under some of the Money-lenders' Acts. A noteworthy feature is that overdues are still high, amounting to Rs 6·38 crores, forming 22 per cent of the total loans outstanding in 1950-1, as compared with Rs 3·93 crores, or 24·6 per cent of the loans outstanding in 1947-8. In some States, overdues form a very substantial part of the loans outstanding, e.g., 99·6 per cent in Bhopal, 58 per cent in Vindhya Pradesh, 57·2 per cent in West Bengal and 46·5 per cent in Assam. Reference may also be made to the fact that the average deposits per society and per member are low, at about Rs 388 and Rs 9, respectively.

Another feature of the agricultural credit societies is their uneven distribution among the various States. For instance, out of a total of 115,462 agricultural credit societies* in the country in 1950-1, as many as 52,422, or 45·4 per cent, were in three States, viz., Bombay, Madras and Uttar Pradesh. The agricultural credit societies in Bombay and Madras accounted for about 58 per cent of the total outstanding advances of such societies in the country.

Multi-Purpose Societies

There has been a rapid growth in the activities of these societies in recent years, mainly as a result of the policy of some of the State Governments of organizing such

* Including 10,464 grain banks.

societies for revitalizing the Movement. In 1949-50, there were 29,525* multi-purpose societies in India (excluding Bihar and Assam for which data are not available) with a membership of 1,507,801 as compared with 18,162 societies with a membership of 577,386 in 1947-8. The value of goods purchased and sold by these societies in 1949-50 amounted to Rs 13.97 crores and Rs 13.86 crores, respectively, as compared with Rs 1.63 crores and Rs 3.52 crores in 1947-8. An important line of multi-purpose activity consisted of the distribution of goods such as seed, oil-cake, fertilizers and consumer goods; to a limited extent, the sale of agricultural produce has also been undertaken by multi-purpose societies.

There has been a noticeable shift in emphasis from the purely credit aspect of the rural co-operative movement towards other activities aimed at meeting all the economic needs of the agriculturists. The distribution of essential goods, especially controlled commodities, has, however, been almost the sole function of multi-purpose societies.

Central Co-operative Banks

There were 505 central co-operative banks and banking unions with a membership of 207,074 in 1950-1 as compared with 469 banks with a membership of 167,225 in 1947-8. Their share capital, reserve fund and working capital amounted to Rs 4.04 crores, Rs 2.42 crores and Rs 56.37 crores, respectively, in 1950-1, the relevant figures for 1947-8 being Rs 2.83 crores, Rs 1.94 crores and Rs 41.90 crores. The loans advanced to individuals and banks and societies in 1950-1 amounted to Rs 7.60 crores and Rs 75.24 crores, respectively, as compared with Rs 4.78 crores and Rs 58.13 crores in 1947-8. The percentage of overdues to total loans outstanding in 1950-1 was nearly 9 as against 10.4* in 1947-8.

* Of this number, 22,786 were in Uttar Pradesh.

* This figure is very approximate.

State Co-operative Banks

The number of state co-operative banks increased from 11 in 1947-8 to 15 in 1950-1. Their share capital and reserve fund in 1950-1 stood at Rs 158 crores and Rs. 1.11 crores as compared with Rs. 88.65 lakhs and Rs. 80.77 lakhs in 1947-8. The loans advanced to individuals amounted to Rs 7.73 crores in 1950-1 in comparison with Rs 6.76 crores in 1947-8 while the loans advanced to banks and societies amounted to Rs 34.40 crores in 1950-1 as against Rs 15.02 crores in 1947-8.

A noteworthy development in the sphere of central financing agencies has taken place in Bombay, where the Government, under the scheme of 'integrated credit', has agreed to contribute to the share capital of the Bombay State Co-operative Bank up to the limit of the subscriptions by societies and individuals, subject to a maximum of Rs 50 lakhs. The Government has also agreed to contribute to the share capital of central financing agencies by providing funds to the State Co-operative Bank to take up shares of central financing institutions subject to a maximum of Rs 5 lakhs in the case of an individual central financing agency and an overall limit of Rs 25 lakhs. The contributions thus made by the Government to the share capital of the State Co-operative Bank and the central banks are to bear interest at 3 per cent (raised to 3½ per cent since 7 March 1952) and any dividend in excess of the above rate is to be taken to a 'credit stabilization reserve' to be maintained separately by the State Co-operative Bank. The contribution of the Government to the share capital of the State Co-operative Bank amounted to Rs 26 lakhs and to the central financing agencies, numbering 7, to Rs 6.75 lakhs, as on 30 June 1953.

It may be noted that the distribution of state co-operative banks and central co-operative banks is more uneven than that of agricultural credit societies. In several of the States, central co-operative banks are

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weak, and state co-operative banks either do not exist or are not functioning effectively.

Non-Agricultural Credit Societies

There were 7,810 societies of this type in 1950-1, with a membership of 2,177,551 and a working capital of Rs 56.78 crores. These societies advanced loans to individuals amounting to Rs 47.29 crores; the amount outstanding at the end of the year was Rs 40.51 crores of which Rs 3.32 crores, or about 8 per cent were overdue. The working capital of Rs 56.78 crores was mainly drawn from deposits, which stood at Rs 35.03 crores. Of the deposits, as much as Rs 19.42 crores belonged to members. Some of the societies also did some non-credit business; goods worth Rs 6.89 crores were received during the year while sales were valued at Rs 7.10 crores.

Land Mortgage Banks

The following table indicates the general position of land mortgage banks in India:

		Central Land Mortgage Banks		Primary Land Mortgage Banks	
		1947-8	1950-1	1947-8	1950-1
1. Number	...	5	5	272	286
2. Membership	...	7,194	9,848	151,103	215,063
		(Rs in lakhs)		(Rs in lakhs)	
3. Debentures outstanding	...	428.08	674.76	6.50	8.59
4. Working capital	...	522.84	772.06	440.94	665.73
5. Loans issued during the year	...	77.65	132.93	90.86	129.02
6. Loans repaid during the year	...	34.94	45.69	42.75	46.05
7. Loans outstanding at the end of the year	...	385.41	597.77	406.94	626.41

The most uneven development with regard to the co-operative credit structure is perhaps found in the sphere of land mortgage banking. Thus, out of a total number of 286 primary land mortgage banks in India in 1950-1, as many as 129 were in Madras. Further, as against

the total loans of about Rs 133 lakhs advanced by central land mortgage banks in 1950-1, about Rs 83 lakhs or nearly 62 per cent were granted by the Madras Co-operative Central Land Mortgage Bank alone. Again, out of a total of about Rs 674 lakhs, representing the debentures outstanding of the central land mortgage banks, Madras accounted for about Rs 509 lakhs. More than half of the States (including several Part B and Part C States) do not have a land mortgage banking structure.

Even though loans for the redemption of agricultural indebtedness still figure largely in the advances made by land mortgage banks, loans for land improvement are also being given in recent years. In Bombay, for instance, the Government has permitted the Bombay Provincial Co-operative Land Mortgage Bank to extend accommodation for purposes such as the sinking, construction and repair of wells, bunding and the purchase of agricultural machinery. The loans are given at concessional rates of interest as a result of the Government subsidy.* In Madras, it is seen from the Registrar's Report for the year ended 30 June 1952 that the loans provided by land mortgage banks for land improvement and for rounding off holdings are on the increase. It is also reported that a large number of loans were given for the installation of pump-sets.

The need for land mortgage banks providing loans for development purposes was stressed at the twenty-third Conference of Co-operative Land Mortgage Banks held in Madras in February 1953. Some of the suggestions made were to give high preference to applicants the demonstrable purpose of whose loans is increased production; the drawing up of practical schemes of land development in collaboration with the Departments of Agriculture and Revenue, etc., after due survey and

* This concessional rate has been discontinued since 1 January 1953, pending the Government's orders for the continuation of the scheme of subsidy.

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study of regional possibilities of land development and improvement; and bringing to the attention of agriculturists, in the regions concerned, appropriate lines of land improvement.

Mention may also be made of the fact that the Reserve Bank, in accordance with its recent practice, has been assisting the land mortgage banks by purchasing 20 per cent (as compared with 10 per cent previously) of the value of the debentures floated by central land mortgage banks in practically all the cases of issue of new debentures. Such contributions, till the end of June 1953, totalled Rs 54 lakhs.

Before concluding this section on the credit sector of the Movement, reference may be made to the reversal of the trends which were noticeable in the working of the credit organizations during the war period. For instance, since the outbreak of the war and up to about 1945, the general tendency (especially in the co-operatively developed States of Madras and Bombay) was for a substantial decrease in the outstanding debts and in overdues, a glut of funds with the financing banks, a fall in the demand for fresh finance and, in the case of land mortgage banks, appreciable advance repayment of loans. Since 1945, however, these trends have been reversed and we see instead a tendency for fresh borrowings as well as outstandings to increase rapidly, thereby leading to a situation in which the supply of loanable funds available with the co-operative banks and societies falls considerably short of the demands on them. To some extent, this tendency may be explained by the curtailment of the activities of money-lenders following legislation to control their working, and by the larger requirements for working capital owing to rising wages and other costs. At the apex level, the increased demand for funds has been met out of increased borrowings from the Reserve Bank, the Government and commercial banks. Such borrowings totalled Rs 8.34 crores in 1950-1 as compared with Rs 5.32 crores in the previous year.

The Non-Credit Sector

Mention of the various types of non-credit societies has been made on pages 124-212 of this publication. The war period gave rise to a rapid increase in the number and activities of non-credit societies, in particular, consumers' stores, but this development does not appear to have been sustained. A brief reference may be made here to certain aspects of non-credit co-operation which have assumed some importance recently.*

The Development of Warehousing

Some of the State Governments have provided financial assistance to co-operative societies for the construction of godowns. For instance, in Bombay, 13 societies were given loans amounting to Rs 3.14 lakhs and 6 societies were sanctioned subsidies totalling Rs 13,140 in 1950-1. The number of godowns constructed during the year was 13. In Madras, loans and free grants are sanctioned to rural credit societies and marketing societies for the construction of godowns. During the financial year 1951-2, 5 marketing societies were given free grants amounting to Rs 48,110 and 4 of them were sanctioned loans of Rs 30,510. Besides, 22 rural credit societies (including an urban bank) were sanctioned free grants amounting to Rs 1.09 lakhs and 11 of them were sanctioned loans totalling Rs 36,500. In all, 62 godowns have been constructed by the marketing and rural credit societies under the scheme. In Orissa, about 15 godowns have been constructed with Government loans and subsidies amounting to Rs 50,000 and about Rs 42,500, respectively.

Some States, viz., Bombay, Madras, Madhya Pradesh, Mysore, Hyderabad and Travancore-Cochin, have passed

* For detailed statistics in respect of non-credit societies, reference should be made to the Statistical Statements Relating to the Co-operative Movement in India for 1950-1, published recently by the Reserve Bank of India.

Warehouse Acts on the lines suggested by the Reserve Bank of India, but, as yet, this legislation has not generally been implemented. In this connexion, the Rural Banking Enquiry Committee (1950) recommended that more active steps than hitherto taken should be initiated for the promotion of warehousing activity in the country, and that as a short-term measure, a Warehousing Development Board, charged with the responsibility of actively promoting the establishment of warehouses in the country, should be established with funds contributed by the Central Government, the Reserve Bank and the State Governments.

The Co-operative Marketing of Sugar-Cane

Co-operative marketing of sugar-cane is reported to have achieved notable success in Uttar Pradesh. In 1950-1, there were 105 cane unions with a membership of about 12 lakhs of growers, which supplied to the factories about 14.5 crore maunds of sugar-cane constituting 88 per cent of the total cane supplied to the factories.

Another notable development in the sphere of co-operative marketing of sugar-cane is the recently organized Bagayatdar Co-operative Sugar Producers' Society, in Bombay State, with a paid-up share capital of Rs 15.24 lakhs (out of which the Government of Bombay hold special redeemable preference shares of Rs 6 lakhs) as on 30 June 1952.

Co-operative Farming Societies

Though co-operative farming has not made much headway in India, interesting experiments in this field have been made in some States. For instance, in Bombay, at the end of 1951-2 there were 224 societies comprising a total membership of 5,994 and covering a total area of nearly 62,250 acres. The Government made available

loans amounting to Rs 6.30 lakhs and subsidies of Rs 3.45 lakhs to various co-operative farming societies which approached it for financial aid during the year. Some of these societies have also undertaken lift irrigation schemes for which the Government granted them loans and subsidies to the extent of Rs 2.22 lakhs and Rs 1.77 lakhs, respectively. Uttar Pradesh had 50 co-operative farming societies at the end of December 1951, with a membership and working capital of 1,388 and Rs 8.16 lakhs. Madras had, in 1951-2, about 30 land colonization societies (excluding the 11 societies for ex-servicemen). They received from the Government interest-free loans of Rs 28,320 and free grants of Rs 33,957 during the financial year 1951-2. The societies were given an extent of 14,201 acres by the Government out of which 10,042 acres were made fit for cultivation.

Co-operatives and the Grow-More-Food Campaign

In some States, co-operative societies are reported to have played a useful part in Grow-More-Food schemes, e.g., distribution of improved seed and manure, provision of credit for installation of pump-sets, etc.

Weavers' Co-operative Societies

Weavers' co-operative societies have made much progress in Madras. A development of interest was the establishment in 1950-1 of the Madras Co-operative Spinning Mills, Ltd. with an authorized share capital of Rs 30 lakhs. At the end of June 1952, the Mills had a paid-up share capital of Rs 29.81 lakhs. The Madras State Handloom Weavers' Society (which has sponsored the scheme) and the primary weavers' societies alone are eligible for membership in the Mills. The Government of India sanctioned a subsidy of Rs 1 lakh from the Handloom Development Fund to meet the import

duty on machinery. A second co-operative spinning mills was registered in April 1952 with an authorized share capital of Rs 45 lakhs.

Co-operative Housing

Co-operative housing has developed in recent years, especially in Madras and Bombay. In Madras, at the end of 1951-2, there were 294 housing societies of various types, with a membership of 26,503 and a working capital of Rs 515.38 lakhs. Government loans sanctioned to them during the year totalled Rs 137.66 lakhs. During the year, construction of 1,168 houses was completed and 2,083 houses were in different stages of construction at the end of the year. Madras has also a sprinkling of rural housing societies.

Bombay had, at the close of 1951-2, 927 co-operative housing societies with a membership of 46,411 and share capital of Rs 173.69 lakhs. The number of tenements constructed up to the end of June 1952 was 8,610 and those under construction was 1,613. The total amount of loans sanctioned by the Government outstanding at the end of the year was Rs 130.39 lakhs. The Bombay Co-operative Housing Finance Society was registered in March 1952, with an authorized share capital of Rs 1 crore, half of which has been promised by the Government, with a view to giving financial assistance to co-operative housing societies in the State. The Government has also guaranteed both the principal amount and a dividend of 3½ per cent on the shares of the Society. The Society has sanctioned loans amounting to about Rs 30 lakhs to 9 co-operative housing societies, as on 5 February 1953.

Miscellaneous

The Co-operative Planning Committee (1945) had recommended the setting up of State Co-operative

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Councils associated with the State Governments, which would formulate plans and policies for the development of the Movement and initiate and approve experiments on subjects relating to Co-operation. It is reported that, in pursuance of this recommendation, Co-operative Councils or Committees have been set up in some of the States, e.g., Madras, Bombay and West Bengal. The formation of such Councils would help in the co-ordination of policy and in the sounding of non-official opinion on various departmental activities.

A notable event was the first session of the Indian Co-operative Congress, wherein, for the first time, officials and non-officials sat together as delegates. It was convened by the Indian Co-operative Union at Bombay in February 1952, and discussed various important subjects.

RECENT TRENDS IN THE SPHERE OF RURAL CREDIT AND CO-OPERATION

The brief account of the progress of various types of societies made in the preceding section would provide an appropriate background to a review of some of the recent trends of outstanding importance in the sphere of Rural Credit and Co-operation. These trends centre round three main issues which are:

(i) The question whether there is a need to form Central or State Agricultural Credit Corporations, in view of the relatively poor progress made by the Co-operative Movement since its inception in 1904.

(ii) The place of Co-operation in relation to rehabilitation and famine finance.

(iii) The role of the Reserve Bank of India in the sphere of Rural Credit and Co-operation.

It is proposed to deal briefly with the above issues, in the following paragraphs:

Central and State Agricultural Credit Corporations

The formation of State Agricultural Credit Corporations, wherever co-operative agencies were not available and strong enough to take up the financing of all credit-worthy farmers, was first suggested by the Agricultural Finance Sub-Committee (1945). This proposal did not find favour with co-operators as in their view, given all the State-aid recommended for the Corporations, co-operative agencies could successfully perform their functions. The most important development which has since taken place relates to Bombay, where after a study of the position of the co-operative financing agencies in the State, the authorities came to the conclusion that the existing co-operative agencies could, with suitable re-organization and State-aid, carry out the important functions proposed to be entrusted to the Corporation. With this end in view, a number of important structural changes were made in the constitution of the Bombay State Co-operative Bank as referred to previously. As in Bombay, so in a number of other States, the tendency is for the State to participate in the share capital structure of the state co-operative banks. There is thus no need at this stage for separate Agricultural Credit Corporations in the States.

The proposal for a Central Agricultural Finance Corporation was first made by the late Shri R. K. Shanmukham Chetty in 1947 when he was the Finance Minister in the Government of India. The consensus of opinion on this proposal was that it was impracticable to set up a Central Agricultural Finance Corporation as an institution of the type envisaged would find it extremely difficult to work on efficient lines on account of diverse local conditions and problems of the different States. This view was endorsed by the Rural Banking Enquiry Committee (1950) which said that proposals to establish a Central Agricultural Finance Corporation were inopportune and that the establishment of such a single

financial agency would not be feasible under existing conditions owing to the widely different agrarian legislation and tenure systems in different areas. The Committee was of the view that no universally applicable pattern or machinery can be laid down for all regions, and that in each region, an adequate machinery for rural credit should be developed in conformity with local circumstances, traditions and ideas. They also emphasized the need to utilize existing institutions, as far as possible, rather than set up new ones.

The question of a National Agricultural Credit Organization, with special reference to the channelling of foreign aid, was raised again at the International Conference on Agricultural and Co-operative Credit held in August-October 1952, in the U.S.A. (Berkeley, California).

A final decision on the desirability of establishing a Central Agricultural Credit Corporation has to be taken in the near future. It should be noted, however, that whatever may be the *machinery* for rural credit, whether it be a Central or a State body, there are many limiting factors which rule out a quick solution of the problems of rural credit. The mere setting up of a particular institution or set of institutions, will not of course provide a short-cut solution to the intricate problems of rural finance, e.g., the lack of trained personnel, the paucity of effective agencies for the distribution and recovery of funds at the village level, the dearth of funds, etc. A Central Corporation, by the very nature of its organization, will find it more difficult to tackle these problems because of their localised nature than State organizations. Thus, the fundamental requisite for any satisfactory scheme of agricultural credit, especially of the short-term and medium-term varieties, is a chain of well-managed primary co-operative institutions and of central banks or district branches of the state co-operative banks to finance and supervise their working. The problem of agricultural credit will remain unsolved, unless this structure at the primary and intermediary levels is built up

satisfactorily. Further, it does not appear necessary, at this stage, to have any special institution for the channelling of the foreign aid which may be forthcoming.

Co-operation and Rehabilitation

In some States, Co-operation has made some contribution towards ameliorating the position of the backward regions and groups of the population. In Madras, for instance, there is a Government scheme to provide loans at a reduced rate of interest, viz., 5 per cent to the ryots in Rayalaseema—a backward region constantly subject to famine. Under this scheme, an amount of Rs 71,297 was paid by the Government in 1951-2 as a subsidy to the five central co-operative banks in Rayalaseema, at the rate of 1 per cent on loans issued to the agricultural credit and marketing societies. There is another Government scheme for the provision of long-term loans to the ryots in Rayalaseema through the Madras Co-operative Central Land Mortgage Bank at a concessional rate of $4\frac{3}{4}$ per cent, with a subsidy provided by the Government. Further, the Government sanctioned a special loan of Rs 5 lakhs to the Central Land Mortgage Bank in order to enable the bank to grant extensions to the borrowers of the primary land mortgage banks in areas affected by drought, for payment of instalments of loans due in May and August 1952. In Bombay, with a view to enabling the rural credit societies in the backward areas to charge relatively low rates of interest to their members, the Government has empowered the Registrar to give subsidies up to 4 per cent (as compared with the usual $2\frac{1}{2}$ per cent) of their working capital for meeting secretarial costs, provided the societies satisfy certain conditions. Further, in 1949, the Government agreed to grant subsidies to central financing agencies for a period of three years in the first instance, at a prescribed level, in relation to the volume of

agricultural advances made by them. These subsidies were intended to meet the deficit in working expenses of new branches opened with the approval of the Registrar. These orders were partly modified in 1952 and the Government authorized the Registrar to subsidize uneconomic branches opened in backward and comparatively undeveloped or under-developed areas to the extent of actual loss for the first three years and at the scale prescribed for other areas, for the next three years.

The question of relief to the backward sections of the community leads to the general question whether Co-operation should be a credit movement or also a rehabilitation movement. This raises issues of a fundamental nature such as the degree of State-control and State-assistance which would be required and the question of compulsory participation in 'co-operative effort' which rehabilitation seems to involve. The type of co-operative organizations suited for such an effort, the change in ideology and outlook required and the means whereby these institutions would be distinguished from and co-ordinated with the usual type of co-operative institutions are all questions which require adequate consideration.

The Role of the Reserve Bank of India in the Sphere of Rural Credit and Co-operation

There has been much discussion in Parliament and elsewhere, in recent years, about the role of the Reserve Bank in the sphere of Rural Credit and Co-operation. Several Committees (e.g., the Co-operative Planning Committee, the Agricultural Finance Sub-Committee and the Rural Banking Enquiry Committee) have also referred to this subject. For instance, the Rural Banking Enquiry Committee (1950) envisaged the expansion of co-operative institutions of all types as one of the principal means of extending banking facilities in rural areas. The Committee also laid stress on the need for

expansion of the facilities for finance available from the Reserve Bank to co-operative banks and for the establishment of a satisfactory liaison between the two. With a view to arriving at definite and practicable conclusions on this problem, the Reserve Bank convened an Informal Conference in February 1951. The Conference made a number of recommendations for the extension of the facilities for rural credit available from the Reserve Bank. These recommendations have been accepted by the Bank and prompt action initiated towards their implementation.

The action taken by the Reserve Bank in this regard falls into three broad categories of measures. In the first category may be included the various steps taken by the Reserve Bank without having to await either the formulation of long-term policy or far-reaching organizational development. These include liberalization of the procedure followed for financial accommodation and amendments to the Reserve Bank of India Act. The second category includes measures, which, while not needing to await the formulation of long-term policy, are, at the same time, dependent upon considerable organizational reform and development. For instance, the Reserve Bank is unable to extend its aid to many States because of the lacunae in their co-operative credit structure. The third category relates to questions regarding long-term plans and policies.

These three categories are briefly outlined below:

The Liberalization of Procedure and Amendments to the Reserve Bank of India Act

The Reserve Bank has considerably liberalized its policy and procedure regarding accommodation to state co-operative banks. For instance, in the past, all loans taken from the Reserve Bank by a state co-operative bank had to be repaid on a fixed date, viz., 30 September, and a credit limit was fixed, not for the total outstandings

on any given date, but for the total borrowings during the relevant period. Repayments made during the period were not taken into account for purposes of restoring the credit limit. This procedure has now been radically modified. It has been agreed that for computing the period at the end of which repayment is due, each loan or advance will be treated as a distinct transaction, and the full period allowed for each transaction. The credit limit is now related, not to borrowings irrespective of repayments, but to the total amount outstanding on any day during the relevant period, the year adopted for the purpose of fixing the credit limit being the co-operative year, viz., 1 July to 30 June. The revised procedure has, in practice, been found generally convenient to co-operative banks.

One of the results of this liberalization of procedure has been the steep increase in the amount of finance made available to the state co-operative banks for financing seasonal agricultural operations and marketing of crops at the concessional rate of $1\frac{1}{2}$ per cent (i.e., 2 per cent below the current Bank Rate). It may be noted, incidentally, that the concessional rate has remained at $1\frac{1}{2}$ per cent even since the Bank Rate was raised from 3 to $3\frac{1}{2}$ per cent in November 1951. During 1952-3, the amount drawn in respect of such accommodation by state co-operative banks was Rs 1222 lakhs as compared with Rs 16.80 lakhs in 1947-8 and Rs 1.25 lakhs in 1945-6.

Next, as regards amendments to the Reserve Bank of India Act, the Informal Conference recommended, among other things, the widening of the interpretation of the term 'seasonal agricultural operations or the marketing of crops' to include mixed farming activities and processing of goods where processing was a necessary preliminary to marketing; re-discounting the commercial paper of co-operative banks; extension of the period of short-term accommodation to 15 months; financing the production and marketing activities of

cottage and small-scale industries; and making medium-term finance, up to a period of 5 years, available to co-operative banks. All these recommendations have received due consideration. The amendments relating to the re-discounting of the commercial paper of co-operative banks under Section 17(2)(a) of the Reserve Bank of India Act, and the extension of the period of accommodation under Section 17(2)(b) from 9 months to 15 months have already been brought into effect, while the other proposals have been approved by the Reserve Bank and the Government of India, and a Bill which, among other things, provides for these amendments, is now before Parliament.

Organizational Reform and Development

A feature of the Co-operative Movement in India has been its very uneven development. The results of this are reflected in a similar uneven mobilization of local savings and resources by the co-operative sector and the deprivation to the rural (and urban) population of vast areas of the credit and other facilities which could be provided by a well-developed and evenly distributed co-operative structure. A brief review of the present position of the Movement in the various States is necessary for an adequate appreciation of the difficulties in the way of development and of the Reserve Bank's endeavours for the creation of a strong co-operative credit structure in such States.

The States in the Indian Union may be grouped into the following four broad categories with regard to the development of the Co-operative Movement:

The first group consists of Madras and Bombay. In these States, the Movement is relatively well-developed owing to factors such as the uniform encouragement and support given by the Government, active non-official leadership, a fairly well-built administrative machinery for supervision, direction and control, and general

consciousness among large sections of the people of the benefits which follow from organizing themselves on a co-operative basis. The Movement in these two States has made much progress especially during and since World War II. For instance, in Madras, by 30 June 1952, the percentage of villages and the population served by rural credit societies was 67·97 and 19·49 respectively, while in Bombay, rural credit societies covered, in 1951-2, 63·4 per cent of the villages. Thus, in these two States, the target set by the Co-operative Planning Committee of the re-organized primary credit societies covering 50 per cent of the villages, within a period of ten years, has been exceeded. The credit societies in Madras and Bombay have also succeeded, in a large measure, in providing finance to the agriculturists at comparatively low rates of interest, the usual rates being $6\frac{1}{4}$ per cent in Madras and 7-13/16 per cent in Bombay.

On the non-credit side also, Madras and Bombay have made commendable progress in many spheres such as consumers' co-operation, milk supply, housing, industrial co-operation (especially weavers' co-operative societies), etc.

The main problem facing official and non-official co-operators in these two States appears to be largely one of consolidating the achievements already made and of planning for expansion within the limits set by the administrative and supervisory resources—official and non-official—so that co-operative organizations could render even greater and more useful services to the community.

The second group consists of a large number of States (including many Part A and some of the Part B States), e.g., Uttar Pradesh, Madhya Pradesh, Bihar, Orissa, Mysore, Travancore-Cochin and Hyderabad. The Movement in some of these States has made considerable progress in various spheres, especially after World War II. Nevertheless, there are several problems, many of which are of an urgent nature, facing the Co-operative Movement in these States such as the re-organization of

the primary credit structure, creation of a sound structure of central co-operative banks and strengthening the position of existing state co-operative banks, creation of an adequate structure of land mortgage banks, etc.

The border States, viz., the Punjab (India), West Bengal and Assam could be placed in a third category. The Punjab, before partition, had a fairly progressive co-operative structure, but it was suddenly thrown out of gear by partition which resulted in large funds of co-operative institutions being locked up in Pakistan. As regards Bengal, it was one of those States in which the Co-operative Movement was very badly affected by the depression of the thirties. Several attempts were made towards rehabilitation, but without any appreciable results. The partition of Bengal disrupted the already weak structure of the Co-operative Movement and gave rise to pressing problems of rehabilitation; large funds of the State Co-operative Bank, which were outstanding from the central banks and societies now situated in East Bengal (Pakistan), became frozen.

The position in Assam has been equally difficult; the Movement in that State had been hit hard by the depression and was on the verge of collapse when World War II broke out. The situation did not improve even during the war and post-war years. In 1947, the State Government introduced a novel scheme of 'trading co-operatives', the main characteristics of which were a very large element of Government control and management, insistence on uniform bye-laws of a comprehensive type and concentration on multi-purpose trading activities. It would appear that all official resources were diverted to this new enterprise to the neglect of the credit side of the Movement. Unfortunately, however, owing to various reasons, this scheme did not achieve even a small fraction of the substantial results expected of it, and in Assam there is at present a moribund credit structure and a trading movement which is functioning very feebly.

In the fourth category could be placed several of the newly formed States (Part B and Part C), e.g., Saurashtra, Madhya Bharat, Rajasthan, PEPSU, Himachal Pradesh, Tripura and Manipur. In most of these States, the Co-operative Movement is either very undeveloped or, as in Tripura, Manipur and Kutch, practically does not exist.

A problem which is common to almost all these four categories, though it varies in degree from State to State, is that relating to the provision of adequate training facilities.

The role of the Reserve Bank in the creation of an adequate co-operative banking and credit structure in the various States could be looked at from two broad aspects. In the first place, the Reserve Bank, as the Central Bank of the country, is keenly interested in the question of the creation of institutional credit facilities in the country to meet, among other things, the requirements of the rural areas. Secondly, the present uneven development of the Movement has given rise to a correspondingly uneven distribution of the short-term accommodation made available by the Reserve Bank to state co-operative banks for the purpose of financing seasonal agricultural operations or the marketing of crops, although it would be relevant to note that it is only recently that the Part B States have come under the purview of the Reserve Bank of India Act. Thus, for instance, out of a total of about Rs 12·5 crores advanced by the Reserve Bank in 1951-2 to state co-operative banks, Madras accounted for about Rs 4·5 crores and Bombay for about Rs 6 crores. On the other hand, the States where the Co-operative Movement is less developed may be equally, if not more, in need of assistance from the Reserve Bank, but owing to various reasons (e.g., the absence or the weakness of the state co-operative banks through which alone the Reserve Bank can provide credit to the Co-operative Movement, and the unsound position of central co-operative banks and, as is

generally the case, also of the primary credit societies) do not qualify for assistance from it. The problem presented by the concentration of its advances in the co-operatively well-developed States has, to some extent, been met by the Reserve Bank by giving loans to state co-operative banks in the relatively less developed States, on the basis of a Government guarantee of such advances, under Section 17(4)(a) of the Reserve Bank of India Act. However, this arrangement is conceived only as a temporary measure designed to be of some assistance to these States. The fundamental solution, however, is for the co-operative banking and credit system in such States to be re-organized or strengthened and brought into line with that in the relatively developed States and thereby to be enabled to get accommodation from the Reserve Bank on its own inherent strength rather than on any extraneous support such as Government guarantee—which can only be a temporary expedient.

With these considerations in mind, a series of visits was initiated in June 1951 by the Officers of the Agricultural Credit Department of the Reserve Bank to the different States with a view to studying the problems relating to their co-operative banking and credit structures and formulating suitable measures of re-organization in consultation with the Governments concerned.

The above programme has been recently completed and it has covered all Part A States, all Part B States (except Jammu and Kashmir) and all Part C States. In many cases, basic plans of co-operative re-organization suited to the conditions of each State have been prepared and agreed upon and, in an appreciable number of cases, implementation of the recommendations has commenced and some progress has been achieved especially with regard to the establishment or re-organization of state co-operative banks.

The broad pattern of development envisaged in the scheme of re-organization evolved as a result of on-the-

spot investigations of the Reserve Bank Officers is as follows:

(1) It is obvious that the healthy and successful functioning of the co-operative credit structure depends to a large extent on the soundness of its basic part, viz., the primary credit societies. In many States, the basic credit structure is weak and ineffective and is in urgent need of re-organization. This fact has been stressed and detailed suggestions have been made in this connexion, e.g., liquidation of societies which cannot be revived, the weeding out of uneconomic or inefficient units, amalgamation, wherever possible, of small societies in a compact area, and creation of economic units. Government subsidies in the initial stages towards the cost of management are suggested wherever necessary. While stress is laid on the importance of multi-purpose activities on the part of the re-organized credit societies, it is at the same time recognized that, before such activities are taken up, a careful assessment should be made of all the relevant factors such as the need to utilize properly the available financial resources and to avoid all possible risks involved in a multiplicity of functions and of the limitations in resources—whether the trading activities undertaken are within the competence of the societies, whether they constitute suitable trading units, etc.

(2) In many of the States (including several Part A States), the central co-operative banks, which function as intermediary agencies between the state co-operative bank and the primary credit societies, are small and uneconomic and are not serving their purposes adequately or efficiently. The position in regard to deposits of a good many of them is generally not satisfactory and very often they do not accept savings and current deposits with the result that their average borrowing rate is high and they are unable to finance the primary credit societies affiliated to them at reasonable rates of interest. They are not usually in a position to employ well-qualified and trained staff. It is stressed that the general experience

has been that wherever co-operative banks operate over large areas they are in a better position to ensure economy of overhead charges, secure funds at reasonable rates of interest, offer cheaper services to their affiliated societies, exercise adequate control over their credit policies, provide large scope for selection of managerial personnel and tend to reduce opportunity for concentration of power in a few hands. The urgent need for a reform of these banks in many of the States is thus one of the important points stressed in the programme of co-operative reconstruction. Various measures have been recommended for the rationalisation of the co-operative central banking structure and for reducing their number through amalgamation, wherever possible, and elimination of uneconomic or financially weak units so as to impart financial strength and stability to the co-operative banking system. Co-operative central banks could render useful functions by way of mobilising local savings, financing, guiding and supervising primary societies and more especially by way of harnessing and allowing local co-operative effort, influence and initiative to have full play—factors which are probably not quite so strong in the case of a branch of the state co-operative bank.

In some of the States (e.g., Bhopal, Himachal Pradesh and Vindhya Pradesh), in view of their small size, a unitary banking structure with the state co-operative bank dealing directly with the primaries through its branches, if necessary, has been favoured.

(3) A good deal of attention has been devoted to the question of the creation or reconstruction, wherever necessary, of state co-operative banks in view of their importance as balancing centres and as agencies which would serve to impart strength and stability to the entire Movement. In particular, the need for a strong share capital structure is emphasized, and equal stress is laid on the State Government contributing a substantial part of the share capital of the new or re-organized state

co-operative banks in view of the poor response likely from the weak or infant co-operative institutions.

New state co-operative banks have been set up in Saurashtra, Rajasthan and PEPSU, while in States such as Madhya Bharat* and Himachal Pradesh state co-operative banks are expected to be set up soon. In several other States (e.g., Hyderabad and Mysore) the reorganization of the existing state co-operative banks, broadly on the lines recommended by the Reserve Bank, is reported to have been receiving the attention of the State Governments.

In a few States (e.g., Himachal Pradesh) the proposal is to convert certain existing banking institutions (in which the State Governments already hold a large part of the share capital) into state co-operative banks. It is emphasized that commercial business on the part of the re-organized institutions would be permitted only during a limited transitional period.

As a result of these steps, in a number of States visited by the Reserve Bank Officers, a 'mixed system', or, in other words, a system where there is Government participation combined with local co-operative effort, is in process of development. In some States, there would have to be greater Government participation, at any rate, to start with, than in others. Under the 'mixed system', moreover, there would be a large element of State participation at the higher or apex level, while at the intermediate and primary levels, there would be central banks and primary societies largely or essentially under non-official management.

(4) As regards land mortgage banks, whose development, as indicated earlier, is perhaps the most uneven, various factors have to be taken into account before starting them, e.g., the prevailing system of land tenure

* Reference may be made in this connexion to the Report of the Madhya Bharat Co-operative Planning Committee (1952) which has dealt in detail with the question of the formation of a state co-operative bank.

with special reference to the existence of clearly determined title to land and the right of mortgage of land. Stress is laid on land mortgage banks providing loans for productive purposes as distinct from loans for the repayment of prior debts. This is specially important in the context of the stress laid in the First Five Year Plan on increased agricultural production. It may be added that central land mortgage banks have recently been set up in Saurashtra and Hyderabad. The Saurashtra Central Co-operative Land Mortgage Bank has floated its first series of debentures for Rs 1 crore. The debentures are guaranteed by the Government of Saurashtra in respect of both principal and interest.

(5) It has been clearly established that the successful implementation of the various plans of co-operative development and the satisfactory working of co-operative organizations would depend to a large extent on the availability of a well-trained and adequate staff. The existing facilities in this respect are meagre and there is great need for the proper training of all grades of administrative, managerial and field staff of the Co-operative Departments and co-operative organizations. This question has engaged the attention of the Reserve Bank which has recently sponsored and subsidized the establishment of an All-India Training Centre for co-operative personnel at the Co-operative Training College, Poona, in conjunction with the Bombay Provincial Co-operative Institute. Under this scheme, two courses have been provided:

(a) a short-term course of six months for training the higher officers of the Co-operative Departments and the executives of the state co-operative banks and of other important institutions. This would approximate to, but be somewhat more elaborate than, a refresher course ; and

(b) a long-term course of one year for training officials and non-officials of somewhat lower categories than those mentioned above.

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Practical training forms an important part of the training scheme.

Since the inception of the scheme in April 1952, two short-term courses and one long-term course were held. The third short-term course and the second long-term course are now in session. Thirty-five candidates underwent training in the two short-term courses already held, and twenty-nine candidates in the first long-term course recently completed. Twenty States have so far taken advantage of the scheme; and about two-thirds of the candidates trained have been from Part B and Part C States.

It is obvious that the scheme fulfils a real need. The training provided at Poona is comprehensive and gives an opportunity to the trainees to study the Co-operative Movement in all its aspects and come in contact with officers from other States and thus gather new ideas which will be of considerable use to them in the performance of their duties. It is, therefore, of great importance that the Co-operative Departments and institutions should take full advantage of the scheme, especially in view of the keen need for such training facilities and the relatively low cost at which they are available to the State Governments and co-operative institutions on account of the subsidy given by the Reserve Bank. The organization of more such training centres would be extremely useful. Realizing the importance of this, the First Five Year Plan has provided a sum of Rs 10 lakhs for subsidizing a part of the cost involved in the establishment of a few regional training centres for co-operative personnel.

Along with the various steps taken in connexion with the re-organization of the co-operative banking and credit structure referred to above, the Reserve Bank has taken two important steps to bring about closer contact between it and the Co-operative Movement in the different States. The first of these is the establishment of a Standing Advisory Committee on Agricultural Credit in July

1951, to advise the Reserve Bank on matters pertaining to its Agricultural Credit Department and on subjects allied to those matters. One of the important functions performed by this Committee is the review and approval of the lines on which plans for the development and re-organization of the co-operative credit system for the various States have been drawn up. Besides the Bank's representatives, the Committee consists of five non-official co-operators and economists, five official representatives of the Co-operative Departments of different States, a representative of the Planning Commission and another of the Ministry of Food and Agriculture of the Government of India. The Committee has so far met on three occasions and at these meetings, apart from offering its advice on various important matters, it has formulated, for the guidance of the authorities concerned, suitable standards in regard to different items connected with co-operative banking and administration such as the maintenance of fluid resources, inspection, and audit classification.

The second important step taken by the Reserve Bank to promote greater contacts between itself and the Co-operative Movement in the various States is the system of inspection, on a voluntary basis, of co-operative banks, especially of those to which it lends or proposes to lend. A beginning has already been made by the Agricultural Credit Department with regard to the scheme of inspection. The guidance which would be available to co-operative banks as a result of inspection will undoubtedly be helpful to them in various ways. One of the important objects of inspection is to ascertain how far a co-operative central bank is fulfilling its role as the central financing agency of the Movement in the district and in what manner its utility can be enlarged with due regard to sound banking principles. It is stressed that the purpose of inspection by the Reserve Bank is *not* to duplicate departmental audit and inspection.

Long-Term Plans and Policies

The problem of co-operative credit, though no doubt a very important one, forms only a part of the wider problem of rural credit in India because, even if the co-operative credit system is well developed in all the States, it could deal mainly, if not solely, with 'credit-worthy' persons and could not serve a vast number of people who may not be 'credit-worthy'. The drawing up of a co-ordinated policy in this sphere and the definition of the Reserve Bank's role are complex tasks for the satisfactory performance of which adequate data are required. A reference may be made here to the All-India Rural Credit Survey initiated by the Reserve Bank in August 1951. The main object of the Survey (whose field operations have covered, *inter alia*, 600 selected villages in 75 districts) is to collect such facts and statistical information as would assist the Government of India, the Reserve Bank and the State Governments in the formulation of useful and integrated policies in the sphere of rural credit. The enquiry is of a comprehensive nature and is expected to cover, among other items, the normal, short, intermediate and long-term credit requirements of both the economic (or credit-worthy) and non-economic classes of farmers, the rural credit agencies, the pattern of savings or deficits, and the various aspects of capital formation in rural areas. It will also assess the effects of the enactments relating to agricultural debt relief, control of money-lending, etc., on the rural credit system. The Report of the Committee of Direction, which is in charge of the Survey, is expected to provide the basic data required for the formulation of well-considered policies and plans for a solution of the various questions in the sphere of rural credit and co-operation.

CONCLUSION

It has been noted at various places in this Chapter that the Co-operative Movement is very unevenly developed

in India. However, the Movement constitutes, either actually or potentially, the most important institutional agency for the provision of rural credit. A more balanced, strong and well-ordered development of the Movement would enable the agriculturists to obtain finance from co-operative organizations at reasonably low rates of interest. In recent years, therefore, importance has been attached to a planned programme of development of the Co-operative Movement. While such a tendency is to be welcomed, it is very necessary to strike a note of caution against the dangers of hasty expansion leading to the neglect of sound banking principles in the anxiety to implement the planned programme.

Again, in the context of the prevailing trend in favour of a 'mixed system', meaning thereby a large amount of State participation in co-operative organizations, especially at the apex level, it should be borne in mind that while State aid, in the existing circumstances, is essential for the development of the Movement in India, yet, such aid should not be regarded as a permanent feature. The co-operative principles of self-help and mutual help should be kept very clearly in view, and the Movement should endeavour to be self-reliant within a limited period of time. Concerted efforts on the part of co-operators, both official and non-official, are necessary to achieve this fundamental objective.

A perusal of the foregoing pages would also indicate that the problem of re-organization of the Co-operative Movement in the various States in India is indeed a complex and difficult one. It opens up a vast field for enquiry. It means, in a large number of cases, the virtual creation of the co-operative structure or its rehabilitation on sound foundations. This involves, among other things, the re-construction of the primary credit structure, the creation of an efficient structure of central co-operative banks and the establishment or the re-organization of state co-operative banks. Further, the staff of the Co-operative Departments and of co-operative

institutions will have to be adequate, well-trained and well-paid. There are various difficulties to be faced in tackling these problems—human, administrative and financial; and to carry out the plans of co-operative development to a successful conclusion, the most careful attention, initiative and vigilance on the part of the Governments, co-operative institutions and workers, both official and non-official, would be required. It should, at the same time, be stressed that the problem of co-operative development has received an added urgency in view of the important role assigned to the Co-operative Movement in the First Five Year Plan especially as regards the provision of finance for increased agricultural production. The Plan has indicated various targets for short-term, medium-term and long-term credit and has recommended that in all aspects of community development, co-operative methods of organization should be adopted to the maximum extent possible.* To reach these targets and to carry out successfully the role assigned to the co-operative organizations in the Plan, it is necessary to have a healthy and evenly developed co-operative structure in the country. All efforts should now be directed towards achieving this very desirable objective.

* As regards short-term credit, the Plan has indicated that the advances to cultivators through the institutional agencies (referring to the Government and the Co-operative Movement, the latter with the assistance of the Reserve Bank) should be steadily increased so as to reach the limit of at least Rs 100 crores per annum by the fifth year of the Plan. As regards medium-term finance and long-term finance, the relevant targets (Government and co-operative), at the end of the present Plan, are placed at Rs 25 crores per annum and Rs 5 crores per annum, respectively.

TABLE I

ALL-INDIA PROGRESS OF THE
CO-OPERATIVE MOVEMENT
FROM 1906-7 TO 1945-6
OVERLEAF

TABLE I
ALL-INDIA PROGRESS OF THE CO-OPERATIVE MOVEMENT FROM 1906-7 TO 1945-6*

Period covered	Number of societies of all types		Number of Primary Society members		Working capital	
	Central	Primary	Agri-cultural†	Non-Agri-cultural ‡	Total|| (Rs 1,000)	Percentage of working capital owned§
Average for 4 years from 1906-7 to 1909-10	17	1,909	107,643	54,267	68,12	21.8
Average for 5 years from 1910-11 to 1914-15	231	11,555	459,096	89,157	5,48,42	20.8
Average for 5 years from 1915-16 to 1919-20	942	27,535	902,930	226,031	15,18,47	24.7
Average for 5 years from 1920-21 to 1924-5	1,808	55,899	1,661,098	493,509	36,36,26	23.0
Average for 5 years from 1925-6 to 1929-30	1,981	91,955	2,791,562	897,279	74,89,13	22.8
Average for 5 years from 1930-31 to 1934-5	1,612	104,102	3,063,628	1,258,641	94,61,06	27.2
Average for 5 years from 1935-6 to 1939-40	1,129	115,831	3,437,873	1,638,869	1,04,67,73	29.7
Average for 5 years from 1940-41 to 1944-5	1,053	148,835	4,768,173	2,449,632	1,24,34,74	29.9
1945-6	1,064	171,102	5,642,671	3,520,673	1,64,00,09	29.0

*Based on Reserve Bank of India's *Statistical Statements Relating to the Co-operative Movement in India* for the year 1945-6, pp. 1-3.

†Include Cattle Insurance Societies and Land Mortgage Banks and Societies, except that members of Cattle Insurance Societies at the end of 1915-16 and 1916-17 and members of such societies in Bombay and the United Provinces at the end of 1917-18 are not included.

‡Include members of other Insurance Societies.

§Including share capital and reserve and other funds.

||It may be explained for non-Indian readers that the punctuation of the Rupee figures by lakhs, crores, etc., does not affect the figures. Thus Rs 68,12,000 can as well be written Rs 6,812,000.

Note: First six averages only include Burma.

TABLE II

GENERAL FIGURES FOR THE
 INDIAN CO-OPERATIVE MOVEMENT
 PROVINCES AND STATES, 1945-6
 OVERLEAF

THE CO-OPERATIVE MOVEMENT IN INDIA

TABLE II
GENERAL FIGURES FOR THE INDIAN CO-OPERATIVE MOVEMENT BY PROVINCES AND STATES, 1945-6*

Province or State	Number of societies			Primary Society members		Working capital (Rs 1,000)	Popula- tion\$ (Millions)	Percent- age of popula- tion affect- ed||
	Central Banks and Unions	Primary		Agricultural†	Non-Agricultural†			
		Agricultural†	Non-Agricultural†					
Ajmer-Merwara	16	607	197	14,025	9,983	61.09	0.6	20.0
Assam¶	19	1,111	1,452	28,146	148,872	1,56,39	10.5	8.5
Bengal	120	39,893	3,307	1,116,978	556,309	23,03,23	62.3	13.5
Bihar	44	9,017	202	221,183	39,423	2,80,13	38.3	3.4
Bombay	132	5,376	1,747	456,167	618,884	35,39,82	21.9	24.6
Central Provinces and Berar	42	5,725	859	95,598	98,459	5,47,93	17.8	5.5
Coorg	14	265	59	23,635	12,119	34,42	0.2	89.4
Delhi	1	238	153	10,263	17,116	57,66	1.4	9.8
Hyderabad	1	.....	7	.....	12,478	19,43	0.1	62.4
Areas	294	12,047	3,571	919,784	944,553	38,29,16	51.8	18.0
Madras	5	992	88	31,026	2,445	54,11	3.5	4.8
North-West Frontier Province	15	2,737	428	113,337	42,298	1,68,57	9.2	8.5
Orissa	120	20,752	6,121	868,003	261,368	24,12,57	29.9	18.9
Punjab	2	739	205	26,101	43,028	4,68,21	5.0	6.9
Sind	67	20,137	1,197	747,650	118,800	5,00,70	56.5	7.7
United Provinces	892	119,636	19,593	4,671,896	2,926,135	1,44,33,42	309.0	12.3
Total British India)	870	114,534	17,934	4,446,020	2,557,749	1,29,42,22	306.3	11.5
Total, previous year

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	1	328	27	7,547	1,721	8,98	0.9	5.2
Alwar	1	320	48	9,748	1,129	19,90	1.6	3.4
Bahawalpur	...	1,119	378	52,599	77,487	2,01,07	3.4	19.2
Baroda	12	645	79	15,651	1,334	35,22	0.6	14.2
Bharatpur	3	276	.....	8,667	.....	11,93	0.8	5.4
Bhopal	16	108	201	13,412	31,762	67,65	1.7	13.3
Cochin	1	3,716	200	68,862	7,126	1,35,51	4.5	8.5
Gwalior	15	10,620	873	348,773	190,256	5,33,60	17.1	15.8
Hyderabad	48	904	101	20,030	17,734	98,73	2.0	9.5
Indore	6	2,898	972	64,343	41,689	1,00,12	4.4	12.1
Kashmir	15	440	95	30,379	19,235	74,09	1.2	20.7
Kolhapur	2	447	68	3,680	3,954	51,84	0.8	4.8
Kotah	1	1,879	643	103,601	121,420	3,63,88	7.8	14.4
Mysore	4	376	63	4,502	677	5,00	2.1	0.8
Patiala	6	331	17	7,435	483	7,98	0.7	5.7
Patna	1	604	4	11,445	106	4,00	0.2	28.9
Sirmur	...	1,300	289	140,938	61,794	92,22	6.6	15.4
Travancore	28	1,300	204	59,157	16,631	1,54,95	4.9	7.8
Other States**	12	27,611	4,262	970,775	594,538	19,66,67	61.3	12.8
Total (Indian States)	172	22,113	4,007	705,450	615,361	17,21,16	60.2	11.0
Total, previous year	169	147,247	23,855	5,642,671	3,520,673	1,64,00,09	370.3	12.4
GRAND TOTAL	1,064	136,647	21,941	5,152,070	3,203,110	1,46,63,38	366.5	11.4
GRAND TOTAL, PREVIOUS YEAR	1,045							

*Based on Reserve Bank of India's Statistical Statements Relating to the Co-operative Movement in India for the years 1944-5 and 1945-6, to which the reader is referred for particulars of the working of societies of different types.

†Include Cattle Insurance Societies and Land Mortgage Banks and Societies.

‡Include other Insurance Societies.

§Estimated by Reserve Bank on the basis of a constant rate (geometric) of increase.

||On the basis of 5 to a family of each Primary Society member.

¶Figures relate to 1944-5.

**Benares, Bhavnagar, Faridkot, Kapurthala, Mewar, Nalagarh, Pudukottai and Sangli.

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TABLE III
NUMBER OF PRIMARY CREDIT SOCIETIES BY TYPES OF LIABILITY*

	Agricultural Societies			Non-Agricultural Societies		
	Unlimited Liability		Limited Liability	Unlimited Liability		Limited Liability
	No. of Societies	Percent- age	No. of Societies	Percent- age	No. of Societies	Percent- age
1940-41						
Provinces	90,542	97.3	2,546	2.7	1,729	33.0
States	10,749	97.8	247	2.2	715	39.0
Total	101,291	97.3	2,793	2.7	2,444	34.6
1941-2						
Provinces	91,329	96.4	3,388	3.6	1,719	31.9
States	14,106	94.6	812	5.4	688	38.5
Total	105,435	96.2	4,200	3.8	2,407	33.6
1942-3						
Provinces	90,940	95.6	4,206	4.4	1,710	32.0
States	14,525	93.8	964	6.2	633	36.3
Total	105,465	95.3	5,170	4.7	2,343	33.0
1943-4						
Provinces	90,057	94.8	4,974	5.2	1,692	31.1
States	18,807	93.2	1,370	6.8	861	38.3
Total	108,864	94.5	6,344	5.5	2,553	33.2
1944-5						
Provinces	88,934	93.8	5,892	6.2	1,626	30.1
States	18,943	90.4	2,011	9.6	724	35.0
Total	107,877	93.2	7,903	6.8	2,350	31.5
1945-6						
Provinces	89,831	92.0	7,885	8.0	1,588	31.5
States	18,345	69.4	8,106	20.6	792	32.4
Total	108,176	87.1	15,991	12.0	2,380	31.4

*Based on Reserve Bank of India, Agricultural Credit Department, Statistical Statements Relating to the Co-operative Movement in India, for the years 1941-2 to 1945-6, inclusive.

TABLE IV

LOANS DUE BY INDIVIDUALS
AND OVERDUES BY PROVINCES
AND STATES, 1945-6

OVERLEAF

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TABLE IV
LOANS DUE BY INDIVIDUALS AND OVERDUES BY PROVINCES AND STATES, 1945-6*

Province or State	Primary Agricultural Societies		Primary Non-Agricultural Societies	
	Loans due	of which overdue†	Loans due	of which overdue†
	Rs	Rs	Rs	Rs
Ajmer-Merwara	6,74,984	17,254	10,61,597	59,620
Assam‡	5,38,500	4,89,458	12,33,248	5,42,341
Bengal	2,75,13,700	2,24,28,479	5,43,48,383	58,30,460
Bihar	27,03,800	11,21,005	37,44,466	5,59,055
Bombay	2,38,00,956	77,05,827	5,06,68,006	36,74,614
Central Provinces and Berar	62,54,561	10,45,167	33,76,655	2,07,335
Coorg	11,33,850	70,475	4,15,496	42,179
Delhi	60,808	17,850	13,61,802	1,02,340
Hyderabad Administered Areas	.....	.....	17,20,135	.....
Madras	4,11,61,246	85,20,513	3,88,10,056	43,36,705
North-West Frontier Province	10,96,212	2,49,159	1,03,062	7,246
Orissa	33,62,650	18,83,596	13,60,604	4,17,387
Punjab	2,64,96,993	66,13,583	77,79,495	8,95,633
Sind	54,12,456	23,55,250	40,75,426	7,00,071
United Provinces	1,27,26,616	18,19,912	70,41,751	4,53,204
Total (British India)	15,59,37,662	5,43,37,525	17,71,00,182	1,78,28,190
Total, previous year	15,07,05,145	5,80,01,737	17,51,09,922	1,82,43,583

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Alwar	5,29,668	1,398	84,256	1,981
Bahawalpur	5,07,777	49,129	78,851	1,080
Baroda	28,60,507	5,33,230	25,88,341	2,58,864
Bharatpur	...	...	7,34,588	.....	25,171	.....
Bhopal	...	...	2,46,507	1,67,362	.....	.....
Cochin	...	...	4,02,635	79,259	8,42,192	1,05,841
Gwalior	...	...	45,98,651	19,00,446	7,14,383	47,621
Hyderabad	...	...	63,34,035	6,79,525	71,60,123	.....
Indore	...	...	26,19,152	.....	15,46,952	3,18,088
Kashmir	...	...	25,19,387	10,50,863	6,36,646	2,50,366
Kolhapur	...	...	10,02,854	1,10,636	19,99,717	1,47,911
Kotah	...	...	8,97,324	6,74,032	1,19,582	7,269
Mysore	...	...	30,44,128	10,58,163	1,00,43,983	25,94,614
Patiala	...	...	3,29,842	90,996	27,075	8,271
Patna	...	...	3,20,011	.....	13,118	.....
Sirmur	...	...	2,38,270	20,690	9,797	1,371
Travancore	...	...	16,05,628	9,55,949	18,87,686	7,29,179
Other States§	...	...	44,83,603	5,59,479	17,78,209	2,17,008
Total (Indian States)	...	...	3,32,74,567	79,31,157	2,95,55,082	46,89,464
Total, previous year	...	...	3,12,00,240	93,06,817	2,86,50,280	50,85,250
GRAND TOTAL	...	...	18,92,12,229	6,22,68,685	20,66,56,264	2,25,17,654
GRAND TOTAL, PREVIOUS YEAR	...	...	18,19,08,385	6,79,08,554	20,31,66,202	2,33,28,833

*Based on Reserve Bank of India's Statistical Statements Relating to the Co-operative Movement in India for the year 1945-6, pp. 9 and 15.

†Loans due for payment which have not been paid and for which extension has not been granted by competent authority.

‡Figures relate to 1944-5.

§Benares, Bhavnagar, Faridkot, Mewar, Nalagarh, Padukottai and Sangli.

GLOSSARY OF INDIAN TERMS

- Anna*: 1/16th of a Rupee.
- Bania*: Trader ; money-lender.
- Beopari*: Trader ; money-lender.
- Bhang*: Dried leaves of hemp.
- Charkha*: Spinning-wheel.
- Chawl*: Small flat ; tenement.
- Crore*: 10,000,000.
- Ganja*: Unfertilized blossoms of hemp used in making *Bhang*.
- Ghee*: Clarified butter.
- Godown*: Store-room or warehouse.
- Gur*: Crude sugar ; same as *Jaggery*.
- Hundi*: Bill of exchange ; a two-name trade acceptance.
- Jaggery*: Crude sugar ; same as *Gur*.
- Khaddar*: Hand-spun and hand-woven cloth.
- Lakh*: 100,000.
- Mahajan*: Money-lender (literally, Great Man) ; also *Marwari*.
- Maund*: A varying measure ; from about 25 to about 85 lb. avoirdupois.
- Mufassal*: 'Up-country' ; outside the metropolis.
- Nidhis*: A kind of Mutual Credit Association in South India.
- Paddy*: Unhusked rice.
- Panchayat*: Literally, Council of Five ; the traditional administrative authority of the Indian village ; also the managing committee of a village co-operative society.
- Panchayatdar*: Member of a managing committee ; also *Panch*.
- Pathans*: Afghans, many of whom are in India as itinerant money-lenders.
- Pattedar*: Land-owner.
- Pie*: 1/12th of an Anna.
- Rupce*: About 1/6d.
- Ryot*: Farmer ; peasant.
- Sahukar*: Money-lender ; trader. (Sometimes spelt *Sowcar*.)
- Seer*: 1/40th of a maund.
- Shroff*: Indigenous banker.
- Swadeshi*: Indian-made goods.
- Takavi*: Government loans to agriculturists.
- Taluka*: A subdivision of a District.
- Toddy*: Fermented juice of various palms.
- Zamindar*: Landholder ; landlord.

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[NOTE:—This is primarily a subject index, and the names of few co-operative societies or individuals prominent in the Movement are listed. For the same reason, and also because the different Provinces and States and their several Co-operative Committees are repeatedly referred to, indexing under political divisions and regional committees has been avoided as far as possible.]

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